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BOSTON OPERATING BUDGET

FISCAL YEAR 1996



OVERVIEW OF THE BUDGET – VOLUME I

THOMAS M. MENINO, MAYOR

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Fiscal Year 1996 Operating Budget

Volume I

Overview of the Budget

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GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

**PRESENTED TO
City of Boston,
Massachusetts**

**For the Fiscal Year Beginning
July 1, 1994**

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Presentation to the City of Boston for its annual budget for the fiscal year beginning July 1, 1994.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

Special Note

In the department budgets which follow you will find many different types of performance measures. There are major performance objectives listed for each department that department heads will be held accountable for. There are selected service indicators depicting historical trends for measures of resources, workload, and productivity. These also include key indicators of administrative efficiency — sick leave, processing time of vendor payments, and lost time due to injury on the job — which are tracked for all departments. Finally, there are detailed program outcomes that are tied to promised levels of service to be reported on monthly by each program manager. These detailed reports will be the mechanism for monitoring performance against all of the goals, historical indicators, and specific programmatic initiatives.

At the Cabinet level, broader goals are identified that provide the direction for the more detailed departmental objectives.

While the Mayoral goals outline the major initiatives that will be addressed, there are also shared goals that cut across all of the cabinets and departments. These are:

- To ensure maximum access to city government and satisfaction with city services by meeting with, surveying, and responding to residents on a continual basis;
- To actively pursue opportunities for cooperation and teamwork across city departments to solve problems or improve services;
- To strive to develop a professional, qualified workforce that is representative of the diversity of the City, in order to achieve the high standards of productivity and efficiency set for every program in every department.

The emphasis on performance monitoring and accountability in these program budgets will ensure that Boston residents are getting high quality services delivered in a cost-effective manner.

Technical Note

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CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
THOMAS M. MENINO

April 12, 1995

TO THE CITY COUNCIL

Dear Councillors:

I transmit herewith my proposed Fiscal Year 1996 Operating Budget for the City of Boston and the County of Suffolk. This Budget, in the amount of \$1.481 billion, is the City's eleventh consecutive balanced budget submission.

This proposed Budget sets forth my goals for this City. It reflects initiatives which will improve and reform our educational system; help to alleviate fear of crime in our neighborhoods; further build neighborhood pride; generate business and job opportunities; make sure all have effective health and human services; and, with an eye to the future, position Boston to be a leader in the 21st century.

The proposed Budget articulates this vision in dollars, in programs, and in measurable commitments. It keeps faith with our residents who demand that we provide the best quality services for their tax dollars. It holds managers accountable and lives within our fiscal limits. It proves that government can change and makes steady progress in many areas.

Perhaps most important to the future of our City is our educational system. This Budget makes a commitment of over \$19.3 million dollars of new funding to the Boston Public Schools to support the services residents want -- expanded kindergarten classrooms, innovative Pilot Schools, curriculum improvements, expanded arts programming, and more. Soon my Blue Ribbon Commission on Community Learning Centers will deliver its draft report. This report will set the stage for further improvements to the educational system.

Education is not only the responsibility of the schools. Opportunities for our youth to learn are in our libraries, our community centers, our parks, and our youth programs. This budget continues to support expanded library hours and brings the libraries to the schools through computer links. The proposed budget of Community Centers increases by 10% as we add 15 more youth workers, open a new site in West Roxbury, and expand several existing programs. Our Parks and School departments will work together on the Parks School Sports Task Force to share resources and experience to create important learning opportunities for our children. For those more troubled youth, the Youth Fund and the new Office of Community Partnerships will continue to bring neighborhood-based programs to them.

Fear of crime remains an issue for our City. Crime statistics tell us that we have turned the corner in the fight against crime, but our residents and visitors want safety to remain a priority. With the funding for 120 new officers in this Budget, Boston will have, by the end of the fiscal year, more police than at any time since 1980. Staffing alone, however, will not solve the problem. The Police Department must implement the best possible policing practices and reach out to the community for involvement and support. We are providing for equipment and technology improvements, and the Department is involving residents of every police district in a comprehensive, strategic planning process for neighborhood policing.

Boston's neighborhoods remain a source of basic strength in our City. Pride in the neighborhoods means clean streets, good City services, taking care of abandoned property and open space, and celebrating the individuality of neighborhoods. Our Broom to Bloom program involves the community in annual "spuce-ups." This year we will begin a new program to bring City Hall to the neighborhoods. The City Consumer Services Outreach program, involving several City departments, will bring information and access to City services directly to each neighborhood.

Two important Public Works initiatives will better serve our neighborhoods. During FY96, our curbside recycling program, initiated last year, will expand to include multi-family dwellings. It is also hoped that additional materials will be added to those currently recyclable. Additionally, the Streetlighting Initiative will add a second shift of workers to repair and inspect lights. This initiative will improve the responsiveness to outages and emergencies.

Business and job opportunities will be created as my Economic Development cabinet expands efforts to attract and retain businesses, and keep families thriving in the City. This Budget reorganizes several functions to focus each department's efforts and make working with the City less bureaucratic to the outside world. To highlight the City as a great place to live and work, a special initiative to promote the quality of life in the City will be undertaken in FY96.

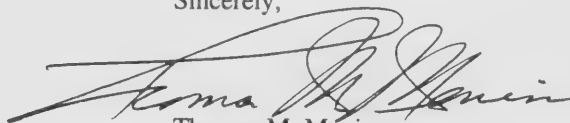
As we look forward to the 21st century, Boston must be in a position to compete nationally and internationally. We are developing several plans -- for our schools, for our seaport, for our neighborhood business districts -- which when implemented will make Boston a leader in the next century.

As the City moves forward with this Budget, it continues to improve the way we manage. This Budget takes the next step in accountability by having clear objectives and outcomes for the services funded. Service management in areas such as property maintenance is being consolidated. This Budget creates a central fleet maintenance program to ensure the City has a long-term, coordinated, and cost-effective plan to manage its vehicles.

None of this can be done alone. We are reaching out and creating new and exciting partnerships to bring together individuals, companies, institutions, and neighbors to creatively address our shared concerns. For example, through partnership with the Boston Public Library Foundation, our capital and operating funds will be matched by private fundraising to enhance library services.

The City Council is part of the partnership plan. I look forward to working with you as you review this Proposed Budget.

Sincerely,

A handwritten signature in dark ink, appearing to read "Thomas M. Menino", with a stylized, flowing script.

Thomas M. Menino
Mayor of Boston

Executive Summary

Executive Summary

The FY96 Proposed
Budget is driven by
Mayor Menino's six
goals.

Introduction

Mayor Menino's FY96 Proposed Budget builds on the framework established in FY95 for a City government based on carefully defined spending priorities, and a keen awareness of the fiscal realities facing the City of Boston. This FY96 Proposed Budget continues the course established by the Mayor towards a more accountable, customer-oriented, efficient City government.

Importantly, the FY96 Proposed Budget is a budget driven by clear direction and priority. Mayor Menino, working with his cabinet and department heads, has established six goals for the Administration.

The Goals are:

- Improving and reforming education
- Alleviating fear of crime in the neighborhoods
- Enhancing Neighborhood Pride
- Effective delivery of health and human services
- Expansion of business and job opportunities
- Positioning Boston as a leader for the 21st century

For each of the goals, vision of the life in the City that would be achieved through the goal has been developed. A process to ensure that all city managers, and eventually all city workers, understand and share the vision has begun. Through common sharing of the vision, supporting key initiatives, and by bringing important partners into the process, the City will be able to make steady progress towards realizing the goals.

The FY96 Budget takes advantage of the City's small financial improvement to make continued steady progress on, as well as begins, a number of initiatives. Additionally, by reaching out to public and private partners, the City's limited resources can be leveraged to provide more services for our citizens. Caution has been applied, however, to only begin initiatives with clear action plans, including some assurance of future funding.

Of particular concern to the City as it moves forward is the ongoing federal budget debate. The discussion of massive federal budget reductions to programs and services which touch every aspect of

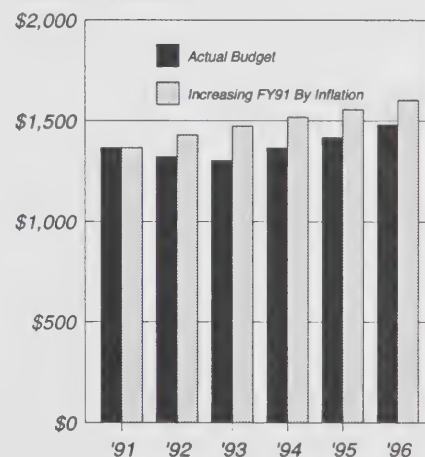
our lives must make us concerned about the future impact on our limited resources.

Wise use of all of the City's resources requires that we know the outcomes of funded programs. The FY96 Budget establishes clear, measurable objectives for each program. Results of FY95 Goals are also presented as part of each department's budget.

Financial Outlook

Continuing a recent positive trend, revenues will provide for a modest 4.5 percent increase in total spending. Growth in City spending since 1991 remains below inflation. (Figure 1.) This increase is a result of a 3.6 percent increase in property tax levy, a 3.7 percent increase in local aid, and increases in other excises as a result of a gradual recovery in Boston's economy. These modest revenue increases, while welcome, obscure the underlying fragility of the Boston budget.

Millions of Dollars



City Expenditures
FY91 - FY96

Figure 1

Boston's operating budget is revenue-driven. Because of the City's very limited ability to expand revenue sources without approval by the Commonwealth, expenditures must be adjusted to reflect

available revenues. During FY92 and FY93, Boston sustained 2 years of revenue declines and was able to maintain balanced budgets only by reducing expenditures. In addition to service reductions and reductions in City personnel, the fact that City employees did not receive collective bargaining increases helped to contain expenditures. The City is now committed to modest annual wage increases through FY96. This increase in personnel costs, the largest single element in departmental appropriations, means that the capacity to maintain service levels will primarily be a reflection of the City's ability to find ways to deliver both existing and proposed services more efficiently.

In order to balance the budget over the next several years while maintaining current service levels, the City must be very cautious in creating either new programs or being overly generous in wage settlements. The demands for increased services; the impact of Education Reform mandates; the pressures caused by federal funding cutbacks; and, the uncertainty of the region's economic recovery mean that Boston's policy makers must remain focused on priority setting and partnership development as key tools in service delivery.

This Proposed Budget is based upon anticipated revenue which includes two state commitments—funding of the Education Reform Act of 1993 and the elimination of the state diversion of lottery funds from cities and towns over a five-year period beginning in fiscal 1996. In FY96, state funding of Education Reform will require over half of all new state-wide revenue. Current state discussion of revenue shortfalls have created questions regarding the commitment to Education Aid and Lottery Aid funding.

While the City is currently experiencing positive revenue trends, it must always be mindful that its ability to raise revenue is constrained by the limitations of Proposition 2 1/2 and the lack of significant local revenue sources. Boston's current tax levy is at 2.45 percent of total value—very close to the Levy Limit ceiling of 2.5%. The potential for a downturn

in these revenues requires that the City have a plan that would allow it to maintain current service levels.

The City has proposed a number of legislative remedies to the structural financial issues which it faces. First, the disproportionate share of Suffolk County corrections costs paid by the City must be addressed. While most counties provide 5% or less of the cost of these facilities, Boston is providing 20%.

Another legislative priority for the City is creating the ability for municipalities to tax businesses leasing land or space from the state or state authorities. Businesses such as these should be taxed because they have an unfair advantage over their competitors and consume public services for which they are not paying.

State funding of the state-created Charter Schools is a third major legislative issue. Under present rules, funding for Boston Public School students will be reduced to pay for the cost of these state-experimental schools. This will cost Boston about \$7.0 million in FY96. Fairness in the implementation of educational reform is a priority.

Four other financial legislative priorities for the City are:

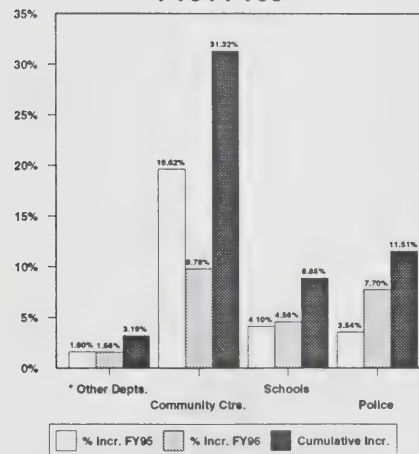
- *Securing state reimbursement for school building construction;*
- *State funding for summer jobs for youth;*
- *Equitable sharing of turnpike tolls with host communities; and,*
- *Reimbursement to municipalities for the costs of major events.*

Expenditure Overview

Mayor Menino's FY96 Proposed Budget funds a 3.7 percent increase in fixed costs—pensions, debt service, and state assessments—due primarily to a 7.1 percent increase in pension contributions. The Budget supports a 4.7 percent increase in City appropriations, a 6.4 percent increase in the Department of Health and Hospitals appropriation, matched by a similar increase in DH&H revenues, and the state-mandated 2.5 percent increase in County funding.

The majority of departmental appropriations reflect an average increase of less than 3.2 percent over FY95 levels. Community Centers, Police, and Health and Hospitals are departments with significantly greater increases. The City's aggressive efforts to control employee health insurance costs have allowed for funding increases of less than projected inflation for FY96. (Figure 2.)

**Changes in Departmental Spending
FY94-FY96**



* Other departments includes all departments except Schools, Police, and Community Centers, and uses the Department of Health and Hospitals budgeted subsidy instead of total appropriation.

Figure 2

FY96 Budget Highlights

As noted above, the FY96 Proposed Budget is focused on the achievement of six major goals. Obviously, many activities and programs further multiple goals, eg. having well lighted streets both deters crime and enhances neighborhood pride. In the presentation below, resources are allocated to a main goal.

Goal 1: Improving and reforming education. An estimated 42 percent of resources are allocated to educational improvements and reform. The improvement of education is a pivotal goal for keeping Boston a competitive and high quality city.

The FY96 Proposed Budget incorporates an expanded presentation on the Boston

Public Schools. This section includes not only expenditure and budget information, but also specific performance goals for the coming year. For the first time, proposed expenditures are shown by educational level—elementary, middle school, and high school.

The Mayor's recommended appropriation of \$444.1 million represents an estimated \$19.4 million increase over the FY95 appropriation. As Figure 3 indicates, the Boston Public School budget has supported the opportunity for initiatives by rising faster than the growth in pupils.

This budget contains many educational initiatives. Among the important items funded in the FY96 Proposed Budget are:

- Pilot Schools with nearly 800 students
- 17 additional full-day kindergartens
- Center for Leadership Development
- Lead Teacher Program
- School Improvement Awards
- Expansion of the Inclusion model for Special Ed Students
- Expansion of the Fine Arts program into elementary schools
- High School accreditation improvements
- Continuation of Efficacy Training
- Continuation of School-based Management

**Boston Public Schools
Cumulative Enrollment Growth vs. Budget Growth
FY93-FY96(proj.)**

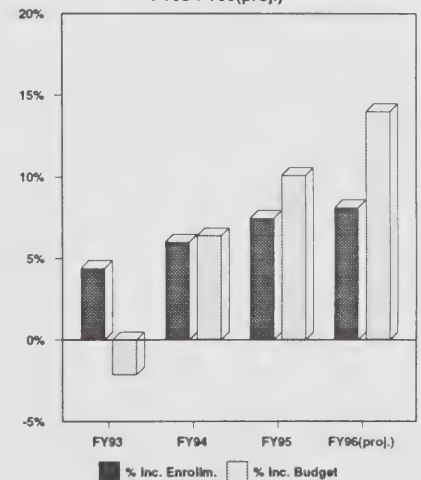


Figure 3

Other important educational considerations are dealt with as well, in the budget. The budget moves the system forward in curriculum development (particularly in Algebra), and maintains the school to career program, as well as other initiatives. According to BPS estimates, the FY96 budget funds 143 new positions. It accommodates projected enrollment growth. It adequately funds inflationary increases in fixed costs such as heat, light, power, insurance, etc. Importantly, the budget fully funds the BTU and other existing collective bargaining agreements.

The School Department is not the only department with responsibility for improving education. The Office of Cultural Affairs has as an objective for FY96 to develop and expand an Arts program for the Schools. The Boston Public Library will set up a computer link with the Schools so that students can access available library books and databases. By providing the funding to have branch libraries open on Saturdays and the central library on Sundays, all citizens will have better access to educational materials.

Goal 2: Alleviating fear of crime in the neighborhoods. The safety of our residents and visitors remains a focal point of Mayor Menino. This focus has had results, as demonstrated by the 4% decline in serious (Part One) crime during 1994. This 4% decline was on top of the fact that 1993 crime levels represented a 20-year low. (See Figure 4.)

Police Department initiatives have followed two major tracks: making sure that staffing levels are sufficient and implementing best public safety practices, such as the neighborhood policing efforts.

This Budget provides for three classes of new police officers to continue the move toward staff levels adequate to fully support Mayor Menino's commitment to community policing. These classes add to the 167 officers hired in FY95. As a result of these efforts, the Boston Police Department will have the highest number of uniformed officers since 1980. Besides these efforts, the Police Department is undertaking management and program-

Boston Police Department Part One Crime

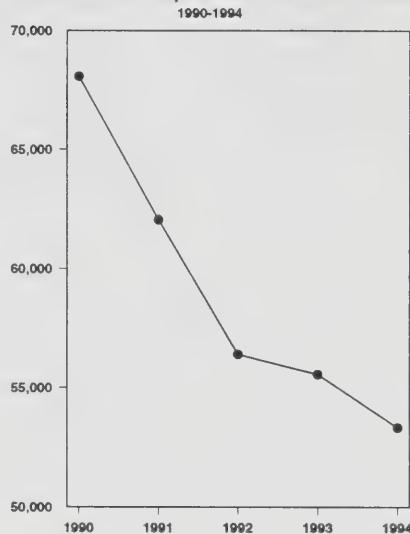


Figure 4

matic initiatives that aim at reducing fear of crime. These are listed in the sidebar.

During the next few months, the Boston Police Department is engaged in a strategic planning process aimed at strengthening its neighborhood policing plan. This unprecedented, department-wide effort will look at all aspects of services and shape the Police Department for the remainder of this decade and into the 21st century. This process, involving officers and citizens in each of the police districts, will create a true neighborhood based partnership for public safety.

Goal 3: Enhancing Neighborhood

Pride. Boston is a City of diversity and of neighborhoods. Making residents feel pride in where they live, while making those neighborhoods welcoming and attractive to all, is an important goal. The goal has many aspects, ranging from physical upkeep and cleanliness to the incorporation of all citizens into celebrations of the neighborhoods strengths and attractions. The Proposed FY96 Budget seeks to enhance this pride through investment in basic services and the support of the programs and services that make our neighborhoods livable.

Police Department Initiatives FY96

Improve equipment through funding for

- 100 new marked cruisers
- 50 unmarked cruisers
- a new Records Management System
- 100 Mobile Data Terminals for cruisers
- 400 radios.

Summer of Opportunity

Diversity-bilingual hiring

Enforcement: BHA Clean Sweep

Boston Environmental Services Team

Repeat Calls Analysis program

One Step Closer Program

GREAT Grant & DARE Program

Asian Crime Task force

Neighborhood Advisory Council in 10 Districts

Greater use of cable and local newspapers for positive messages (i.e., crime stoppers)

'Facing History and Ourselves' Training program

Street Smarts conflict resolution training

Operation Squeeze on Prostitution

Youth Violence Strike Force

Operation Nite Lite

Vacant Lot Program

The Inspectional Services Department comprehensive Vacant Lot Program cites private owners of vacant parcels of land in violation of State Sanitary Code. This program identifies and coordinates the cleanup of over 400 vacant lots by the owners, at a savings to the City of approximately \$200,000 annually. An additional 500 City-Owned lots each year are cleaned each year by the City. This Summer an expanded effort will deploy cleanup teams, including the Boston Youth Clean Up Corps to facilitate a cost effective maintenance program stabilizing many neighborhoods in the City by discouraging dumping.

A good example is the Broom to Bloom program which includes neighborhood and community clean-ups, beautification projects, and plantings. During the Spring, Broom to Bloom will hit almost every area of the City. Residents and city workers participate side-by-side to make their neighborhoods better places to live.

The Mayor's Office of Consumer Affairs, in coordination with the Office of Neighborhood Services, the 24-hour service, the Elderly Commission and other city departments, is launching the City Consumer Services Outreach Program. This program will expand public awareness of city programs and services, provide direct delivery of applications for various city services, and receive and track neighborhood concerns and requests for service.

In FY95 the City began city-wide curbside recycling. Existing bi-weekly newspaper recycling became weekly. A customer-friendly "blue boxes" approach made it easy for residents to participate. These efforts have resulted in over 1,100 tons of materials being diverted from the disposal stream each month, at an estimated annual savings of over \$600,000 in disposal costs. During FY96, expanded service to multi-family dwellings will be added, and additional materials may be added to the recycling program.

Enhanced efforts to clean and maintain vacant lots are a priority in this budget. It is expected that 350 vacant lots will be cleaned by the Public Facilities Department during FY96. Responsibility for vacant lots will be strengthened and clarified by shifting responsibility for Boston Redevelopment Authority lots to the Property Management Department. Coupled with the new Property Disposition process, it is hoped that approximately 165 vacant, City-owned lots will be placed in private hands during FY96.

The new Streetlighting Initiative will create a second shift to repair and inspect the streetlights in the City. With the new shift, workers will perform routine maintenance and repairs and respond to outages, or emergencies more quickly. This initiative will improve public safety and the quality of neighborhood life.

The Parks Department has created a Quality Inspection Program to monitor routine maintenance and capital improvements to all 192 parks and playlots. The aim of the Quality Inspection Program is to achieve a consistent quality of cleanliness and safety for the parks, park facilities and playlots. At a minimum, all parks and playlots are inspected four times per year. Additionally, parks that do not meet the inspection standard, are reinspected as many times as needed to achieve acceptable quality standards.

This program is directly responsible for the design and implementation of the Park Survey System, which, in collaboration with the Parks Maintenance Division, responds to work orders targeting specific locations or maintenance activities in need of immediate attention. The program has also introduced a rating mechanism designed to show continual improvement in the quality of one of the nation's largest parks systems.

The Parks School Sports Task Force is a joint task force involving the two largest developers of sports activities for youth in the City. In order to develop complementary activities, the Parks Department and the Public School System collaborate to design programs that will meet the recreational needs of school age children. This coordination between the Parks Department and the Public Schools allows the Parks Department to develop activities, leagues, and sports clinics that complement those occurring as part of the school program. In addition to planning and developing recreational programs, the task force facilitates the sharing of new ideas, facilities, equipment, and ballfields.

Consolidating responsibility for maintenance, alteration, repair, and security of municipal buildings began in FY95 with creation of the Property Management Department to allow for more efficient delivery of these services. This Budget adds responsibility for the Parkman House and the Strand Theater to this department. Funding for an overall analysis of city property was included in the FY96-2000 Capital Plan. Increased funding for en-

Steady Progress Through New Partnerships

Thanks to partnerships between the public sector and private institutions, and between the City and its citizens, the City of Boston is making progress toward its objectives. This is Mayor Menino's new vision of how government helps people—by enabling them to help each other.

The following are some examples of emerging partnerships:

- *Private corporations join with the City to protect children*

"Summer of Opportunity Program" in which John Hancock supports programs for youth during the summer

"Boston Out-of-School-Time" Reebok will fund new youth programs and sports leagues with more than \$1.5 million in grants over the next 3 years.

- *Neighbors work to ensure a home and health care for people with AIDS*

There is a new AIDS residence on Beacon Hill, thanks to friendly neighbors who welcomed the new residence and made it happen

- *The "Comeback of Blue Hill Avenue"*

In partnership with Nuestra Comunidad and the Dudley Street Neighborhood Initiative, work toward the Mayor's promise is experiencing steady progress. Thanks to this partnership, one hundred

affordable homes were constructed at Stafford Heights

- *Renewal of "Boston's Main Streets"*

In partnership with the National Trust for Historic Preservation, this revitalization program seeks the renewal of business districts in 20 areas of the City.

- *The Empowerment Zone initiative*

This partnership with the federal government and eight major banks will result in 25 million dollars of federal assistance and 35 million dollars of flexible capital from the banks. The Initiative has linked communities between South Boston and Mattapan and has formed a citizen's task force of more than 100 people

- *"Boston Means Business" - Bringing businesses to Boston*

One of the ways this promise is being realized at the local level is through the placement of a Supermarket in every neighborhood, via partnerships with companies like Wollaston's, Star Market, and Purity Supreme.

- *"A Boston Action Plan for Improving Access to College"*

The Mayor promised every freshman in high school who maintained a B average and was accepted to any Boston area college, that he/she would be able to

attend, regardless of financial situation. Thus far, local schools like Emerson, Wheelock, Fisher, and Massachusetts College of Pharmacy, have made commitments to providing the most generous aid possible. Northeastern University has promised to provide financial assistance to every incoming freshman who is a Boston resident with a B average

- *Partnerships between Boston schools and businesses, colleges, universities, and arts groups*

For example, the Gavin School has partnerships with Reebok, Lesley College, Boston Children's Services, the Vietnamese Youth & Family Center, and several health centers

- *Boston Private Industry Council's Partnership Program*

The Program has linked together more than 40 major businesses and corporations with Boston schools. Boston University is affiliated with 24 elementary, middle, and high schools; Northeastern, with 33 schools. There are also partnerships between schools and the City's arts and cultural communities. These relationships result in field trips, artists in residence, workshops, performances, and other opportunities for many of the students

energy conservation, which will reduce operating costs, was included in the Capital Plan.

Boston has over 250,000 trees lining its streets and public areas. The FY96 Proposed Budget creates an Arborist position to lead the City's efforts to maintain and expand those efforts. During FY96, almost 1,300 trees will be planted by the Parks and Recreation Department. A comprehensive tree plan will also be developed to ensure that this valuable resource is protected.

A city which looks better is healthier, and attracts people and activities which benefit the City. Under this Budget, the Clean

Cities Commission, which has been dormant for years, will be reinvigorated.

Goal 4: Effective delivery of health and human services.

A focal point of the City's human services efforts is Boston Community Centers. This Proposed Budget further improves the services available through Community Centers by:

- *Ensuring that there is at least one youth worker for every Community Centers council by hiring 15 more youth workers*
- *Adds full year programming for Orchard Park Community Center*
- *Opens the Parkway Community Center*
- *Extends the hours at the Holland Community School with external funds*

Typical Public Health Programs

Communicable Disease Control

Program distributes vaccines to health care providers and is developing a citywide immunization database. It is expected that 267,000 doses of vaccine will be distributed annually.

Injury Prevention Program

Launched "Kids Can't Fly", a city-wide window falls prevention and education campaign to promote the voluntary use of window guards in the city. Window falls have been reduced by 50% since the program started.

School Health Program

Program provides school-based health services to more than 600 students in 13 participating Boston Public High Schools. Services include physicals, immunizations, pregnancy testing, diagnosis and treatment of some acute illness, common injuries, infections and respiratory problems.

- Extends the regular and Camp Joy programs at Murphy School to include Saturdays throughout the year.
- Extends the season for two outdoor pools—the Clougherty in Charlestown and the Mirabella in the North End.
- Adds more adult and youth educational programs
- Improves School/Community Centers collaboration by keeping English High and Cleveland Middle School open at the same time as the Community Centers and offering joint programming.

During FY96 it is expected that the work of the Mayor's Special Commission of Health Care (McGovern Commission) will complete its work. The Commission has been developing the plans to integrate the services of the Boston City Hospital and University Hospital. The Commission's work will secure the future of the City's commitment to high quality health care for all.

Public Health programs will certainly remain an important part of the City's efforts. In FY96, over \$46 million of City, state, and federal funds will deliver services ranging from immunization to violence prevention. (See sidebar.)

The Emergency Shelter Commission will oversee a new program to create a farm on Long Island in conjunction with the Long Island homeless shelter. Under this initiative, those served by the shelter will be given the opportunity to raise food to be used and served in the shelter.

Goal 5: Expansion of business and job opportunities. The Economic Development Cabinet is responsible for planning, economic development, and housing activities to enhance Boston as a place to live and work.

Mayor Menino has charged the Economic Development Cabinet to create a proactive approach to developing and supporting economic activity in Boston. The Office of Business Services will be integrated into the Public Facilities Department and its efforts to stabilize and build neighborhood business districts. To complement efforts to attract new busi-

nesses, the Office of Special Events and Tourism develops marketing strategies and provides advertising to increase tourism to Boston.

The Film Bureau established in FY95 has already received over 450 inquiries and issued close to 200 permits. The Bureau is developing a protocol to streamline the process for the use of City property in film productions. These efforts, along with various outreach and marketing strategies, is the basis of a planned growth in interest in Boston by the film industry for FY96.

Several organizational changes will strengthen the City's ability to expand business and job opportunities. The Minority and Women Business Enterprise Office is being expanded to allow for additional outreach and marketing efforts. An expanded resource center for new and emerging businesses will be offered. A newsletter will keep possible clients better informed.

The responsibility for the Boston Residents Jobs Policy will be more clearly delineated through a new office within the Economic Development cabinet. While this will result in closer coordination and improved oversight, no additional resources will be required.

Responsibilities of the Boston Redevelopment Authority have been clarified to allow it to focus on its main mission—economic development. Its property maintenance functions have been transferred to the City's Property Management Department, while its housing duties move to the Public Facilities Department. Besides the expected service delivery benefits, these moves will result in modest cost savings as well.

FY96 will also see the development of a campaign to promote the quality of life in the City, with the goal of retaining and attracting residents to Boston's diverse neighborhoods. Highlighting the positive aspects of neighborhood life, this initiative seeks to overcome negative imagery and enhance the economic vitality of the neighborhoods.

Goal 6: Positioning Boston as a leader for the 21st century As Boston approaches the 21st century, it must position itself to remain competitive in an ever changing global market. Additionally, it must ensure that its citizens will be full participants in an era that will emphasize education, ability to change and respond to market conditions, and rapid exchange of information.

Having a well-educated workforce is perhaps the most important preparation that can be made. As noted above, the City is investing in improving its schools. In FY96, the Mayor's Blue Ribbon Commission of Community Learning Centers will issue its master plan for making Boston's schools physically, technologically, and educationally the launching pads for the new century.

Meanwhile, through various other strategic planning efforts, the City is preparing itself to take advantage of the many amenities which make Boston an attractive place to live and work. For example, the Seaport District Revitalization Study done in conjunction with MASSPORT, will determine how to best use Boston's waterfront. Also beginning is a comprehensive planning process to create the vision of Boston for the next century. Funded through capital funds, this plan will provide the City with its most thorough roadmap for the future that it has ever had.

Management Strategy Refinements

Organizational Changes. The FY95 Operating Budget created Mayor Menino's new structure for municipal government, by consolidating City departments and expenditures into eight substantive areas: Mayor's Offices, Operations, Education, Public Safety, Basic Services, Economic Development, Health and Human Services, and Financial Operations. Subsequently, a ninth area—Environmental Services was created. The FY96 Proposed Budget continues that cabinet structure with some adjustments.

The Economic Development Cabinet is reflecting a new department for the Boston Residents Jobs Policy (BRJP) Office transferred from the Economic Development and Industrial Corporation (EDIC). Closely linking the BRJP with the existing MWBE programs ensures that all programs that focus on job creation and business development for Boston residents, women, and minorities will be operated in a coordinated fashion.

As noted above, the Neighborhood Housing and Development functions of Public Facilities (PFD) and the Boston Redevelopment Authority (BRA) are now consolidated within PFD. Similarly, the property management functions of the BRA are merged with those of the Property Management Department.

In a sweeping move to improve internal service delivery and eventually reduce costs, the fleet management function of six departments have been consolidated into one central fleet maintenance program within the Transportation department, to be phased in by January 1, 1996.

Basic Management Goals. This Budget builds upon five key management objectives established by Mayor Menino.

These objectives are:

- Accountability for Performance
- Commitment to Customer Service
- Service improvement through cross-departmental cooperation
- Workforce diversity reflecting the City's population
- Financial stability

The budget process has been used to establish specific performance objectives for both cabinets and individual departments. This attention to challenging performance commitments sets forth a clear standard for accountability that focuses not on inputs (how many dollars are spent and how many employees are hired), but on results that are meaningful to the public.

The FY96 Proposed Budget includes mid-year FY95 performance results for the major departmental goals established in the FY95 Budget. For objectives established for FY96, historical performance

Centralized Fleet Maintenance

In FY96, the City of Boston will implement a new centralized fleet maintenance program. This centralized operation will encourage a long-term, City-wide coordinated strategy, standardized policies and procedures, and cost efficiencies.

The new centralized system will allow a more coordinated approach to the management of the City's fleet. Centralization will decrease the downtime of the fleet, lower repair cost per vehicle, provide consistent preventive maintenance to the fleet, thereby, delivering a higher level of service to its customers.

levels (where known) are presented. Continued reporting of baseline service indicators continues as well. During FY96, the City will embark on an effort to develop meaningful ways to report on the costs of delivering specific services.

Coordinated All Funds Approach. In FY95, Mayor Menino created the Office of Budget Management (OBM), merging the formerly separate operating budget and capital planning offices. Additionally, OBM was placed within the Finance Cabinet, along with other financial departments and the City's Trust Office. This structural change created the possibility for more coordinated application of the City's resources.

This budget presents, for each department in the City's General Fund Operating Budget, anticipated grant or external funds, and capital projects to be completed during late FY95 and FY96. In this way, the use of resources can be meaningfully evaluated.

As a result of this coordination, project specific results are emerging. For example, two previously uncoordinated issues are being addressed—the need to remove and replace approximately 80 underground fuel storage tanks and the high cost of maintaining many small vehicle fueling locations throughout the City. Through coordination of these activities, the City has devised a plan to create 9 regional refueling sites as part of the underground tank plan. As a result, the number of fuel sites will go from approximately 50 to 9, saving significant resources.

A further outgrowth of this coordination is a recognition of the need for strategic plans for many service oriented departments. This work was begun in FY95 with the creation of the Blue Ribbon Commission on Community Learning Centers, to establish the needs of the school system for the 21st century. In FY96, the City will begin a strategic planning process for the Boston Public Library and the Boston Community Centers. These studies will address the organizational requirements, both programmatic and physical, for these major service delivery departments.

Fee Adjustments In May, a modest package of adjustments to fees will be submitted to City Council. The last adjustment to fees and fines was done in 1990. As part of this new package, adjustments will be made to allow the City to reflect cost increases.

Competitive Service Delivery Under existing arrangements, the Police Department calls on private tow operators to transport stolen vehicles that are recovered to their tow lot. To ensure that the best system exists for recovering stolen cars, the City will competitively bid this service in FY96, and for the first time, encourage City employees to develop and submit a proposal in competition with private entities.

How to Read the Budget

This Proposed Budget is presented in three volumes. Volume I provides an overview of the entire budget and the City's financial condition, including the budget summary, analysis and estimates of all revenue accounts, and a description of the City's financial management systems.

Volumes II and III present detailed information by cabinet on each City department. Volume II includes the Mayor's Office, the Chief Operating Officer, the Basic Services Cabinet, and the Chief Financial Officer. Volume III covers the Public Safety, Economic Development, Health and Human Services, Environmental Services, and Education Cabinets, and the non-Mayoral departments.

All General Fund, grants and other external funds, department-related capital projects scheduled for late FY95 or FY96 completion, and FY96 objectives are shown by department. For FY96 objectives, planned program outcomes are given.

For each department, mid-year levels of achievement for FY95 goals are reported. In many cases, actual performance will not be known until the completion of the fiscal year.

Selected service indicator charts display six years of expenditures and staff levels,

and known performance levels or projections of current service levels for about a thousand different indicators throughout all departments. In some cases, data are not reported, reflecting a mid-year change in measurement to the objectives or outcomes format.

Department and division level charts show actual numbers of full-time employees as of June 30th of completed fiscal years. They also show the total actual ex-

penditures for past years, with FY95 and FY96 indicators as budgeted for personnel and expenditures. Program level charts show budgeted levels of personnel, actual program expenditures, and historical levels of workload and productivity.

Personnel detail and General Fund spending history by line item are shown at the department level, as are external funds totals. Short descriptions of all external grants are also included.

Summary Budget

SUMMARY BUDGET

1995-1996

The proposed FY96

budget of \$1.481

billion represents a

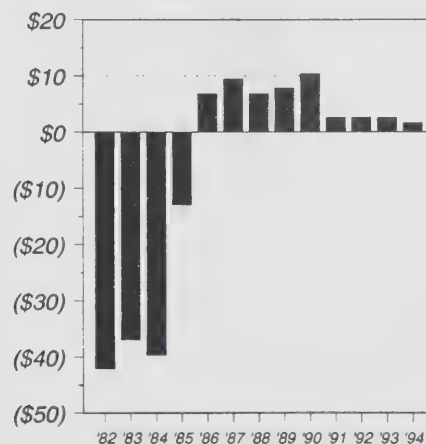
4.5% increase over

FY95.

The proposed FY96 budget of \$1.481 billion represents a 4.5% increase over FY95. The FY96 budget will be the City's eleventh consecutive balanced budget. (See Figure 1.) As has been the case for several years, the largest revenue increase is in the property tax levy. In addition, there is modest growth in all other major recurring revenue categories. This will permit the City to refrain from using non-recurring revenues to support the operating budget. On the spending side of the budget, total departmental appropriations increase by 6.5%, while fixed costs decrease by 4.8%. A portion of this sizable variance in departmental and fixed cost growth is directly attributable to the transfer of the Department of Health & Hospital's pension and debt costs from the City's fixed costs to the departmental budget.

This Summary Budget reviews the current fiscal year budget and the proposed budget for the upcoming fiscal year, followed by a brief description of each line item in the summary budget.

Millions of Dollars



Surpluses And Deficits

FY82 - FY94

Figure 1

Overview Fiscal Year 1995

Total planned FY95 expenditures increased by \$52 million or 3.8%. A \$50 million increase in total estimated revenue is the result of significant increases in the

property tax levy (\$30 million), hospital receipts (\$16 million) and state aid (\$13 million). As has been the case for the last two fiscal years, the City does not expect to be in a position to appropriate from budgetary fund balance during FY95. The growth in planned departmental expenditures is 4.3%, a significantly smaller increase than the 7.1% increase in FY94. Fixed costs meanwhile are estimated to come in at less than 2% over FY94. A portion of this variance in departmental and fixed cost growth is directly attributable to the transfer of the Sheriff's Department pension costs from the City's central pension account to the departmental budget. The FY95 budget covers all the costs for pay raises negotiated with the unions to date.

Overview Fiscal Year 1996

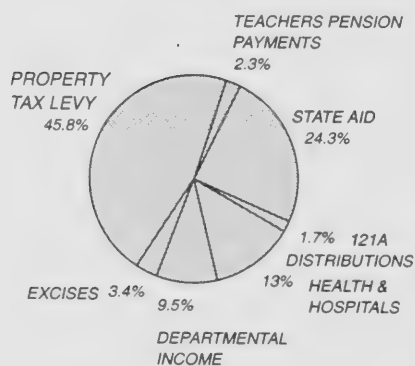
Total planned FY96 departmental and fixed cost expenditures together will increase 4.5% for a total increase of \$64 million. On the revenue side, the City expects for the first time since FY89 to experience increases in all the major recurring revenue items, led once again by the property tax levy with a \$25 million increase. Other major increases are \$13 million or 7.3% in hospital receipts, \$13 million or 3.7% in state aid distributions, and \$12 million or 9.3% in departmental income. Overall, the proposed FY96 budget includes \$1.481 billion in expected revenues and planned expenditures. The property tax levy continues to be the major source of growth in the City's revenues, allowing the City in FY96 to afford modest collective bargaining increases as well as add some public safety personnel during the course of the year. Following is a brief description of each line item in the summary budget.

Revenues

Property Tax Levy. The property tax levy has been the City's most dependable source of major revenue growth during the past eleven years. In FY95, the net property tax levy will provide 46% of all City revenue. (See Figure 2.) The increases have been steady and consistent from FY85 to FY95, ranging from \$28 million to \$41 million. Its future growth, as

explained in more detail below, may be in question.

In each year since FY85 the City increased its levy by the allowable 2.5%. During these same years, the levy has also been positively impacted by taxable new value, especially from new construction. This has added to the tax base. The combined effect of the allowable 2.5% increase and the taxable new value is an average annual levy increase from FY92 through FY95 of 5.6%, and a projected increase in FY96 of 3.6%.



Estimated Revenue FY96

Figure 2

From FY85 through FY89 assessed property values in Boston increased dramatically, far outpacing the capped growth in the levy. Consequently, there was a significant downward trend in the property tax rates. The City's net effective tax rate in FY84 was 2.5%. By FY89, the net effective tax rate had fallen to 1.4%.

What occurred in the Boston real estate market, beginning in 1988, significantly reversed the FY85-FY89 tax rate trends. As the New England region experienced a deep recession, activity in both the commercial and residential markets slowed dramatically. Office vacancy rates increased and downtown development came to a near standstill. All of this was

reflected in the fourth City-wide revaluation, establishing values as of January 1, 1991 at \$29.8 billion. This represented an 18.1% decline from the prior year's total taxable value. This was followed by an 8.4% trending down for January 1, 1992 values at \$27.3 billion.

As values decreased, the City continued each year to maximize the allowable levy increase under Proposition 2 1/2. Between FY90 and FY94 the levy increased each year by an annual average of 6.4%. The dramatic decrease in values reversed the previous tax rate trend. From FY82 to FY89 the net effective tax rate had decreased every year due to values increasing faster than the levy. From FY90 to FY94 the net effective tax rate rapidly increased. As of FY95, the net effective tax rate stood dangerously close to the Proposition 2 1/2 ceiling at 2.45%. Boston has the highest net effective property tax rate in Massachusetts. Should the direction of the real estate market, which currently is modestly positive, suddenly reverse again, then the City's current position at the 2.5% tax rate threshold has profound implications for the future ability of the City to maintain the current level of services.

Motor Vehicle Excise. In FY93, the City's motor vehicle excise receipts surged dramatically upward to \$30.1 million. An aggressive program linking payment of motor vehicle excise bills with renewal of driving licenses by the Registry of Motor Vehicles heavily impacted FY93 collections. Furthermore, the FY93 receipts were also pushed upward by a delay in issuance of bills in FY92. The City collected \$21.7 million in motor vehicle excise revenue in FY94, and also estimates \$21.7 million to come in during FY95. As employment growth and consumer confidence have revisited New England, more people have returned to the market for new cars. As a consequence, the City is projecting \$22.6 million in motor vehicle excise for FY96.

Room-occupancy Excise. The room-occupancy excise amounts to 4% of the total amount of rent for each hotel or motel room occupancy. The growth of this revenue source has mirrored the

In FY95, the net
property tax levy will
provide 46% of all City
revenue.

economy with a major decrease in FY92 and solid recovery and growth in FY93 and FY94. The \$15 million collected in FY94 was the highest annual amount since the local excise's inception in FY86. Boston's occupancy and room rates are among the highest in the country and the most recent data on tourism shows an increasing number of visitors coming to Boston. For FY95 and FY96 the City estimates it will receive \$15 million and \$15.7 million, respectively, in room-occupancy receipts.

Jet Fuel Excise. The excise on the sale of jet fuel is 5% of the average sales price, but not less than 5 cents per gallon. One reason that the jet fuel excise has tended not to increase is that the 5 cents per gallon has generally been the operative rate, thus rendering inflation of jet fuel prices irrelevant to these excise collections. Another underlying factor which limits jet fuel excise growth is the increased fuel efficiency of commercial aircraft which use Logan airport. Because fuel is such a major portion of their expenditures, airlines have steadily improved the fuel efficiency of their fleet. Due to improvement in the economy, FY94 receipts increased by 9.4% to \$12.5 million. The City now expects this revenue source to come in above its \$11.5 million midyear projection for FY95 and has budgeted \$12.5 million for FY96.

Departmental Revenues. Departmental revenues consist of approximately 250 miscellaneous accounts including such diverse revenue sources as health inspection fees, cemetery fees, parking fines, and interest income. In FY95, the City projects it will bring in \$128.2 million in departmental revenues, 8% under the amount collected in FY94. For the first time since FY84, departmental revenue accounts for less than 10% of total General Fund revenues (in both FY95 and FY96 projections). Currently, the Office of Budget Management is beginning a review of fees and fines to formulate proposals to ensure fees and fines are at appropriate levels. Economic activity is also a determinant for permit, license, fine and other revenues. These trends

are described in the "Revenue Estimates & Analysis" section of this volume.

Hospital Income. The City currently operates Boston City Hospital, a 357 bed acute-care hospital which began operations in its new facility in January 1994. In addition, the City operates Boston Specialty and Rehabilitation Hospital (BSRH), a sub-acute care facility.

The largest form of payment for the patients cared for at Boston City Hospital is reimbursement for uncompensated care from the statewide free care pool. The second largest form of payment is Medicaid. Blue-Cross/Blue-Shield and commercial insurance play a smaller role than at most hospitals due to the nature of Boston City Hospital's patient population, nearly 80% of which is drawn from the hospital's surrounding neighborhoods and which includes many uninsured and non-paying patients.

Chapter 495 of the Acts of 1991, the most recent legislation governing statewide health-care reimbursement, moved Massachusetts decisively in the direction of market-driven pricing. Hospitals are allowed to set outpatient rates. Chapter 495 also converted the uncompensated care pool to a free care pool by eliminating payments to hospitals for bad debts. This has allowed Boston City Hospital to recoup a larger share of the pool because a very low proportion of the persons receiving uncompensated care at Boston City Hospital have sufficient income to be classified as bad debts.

The City assumes hospital receipts will grow by 10% in FY95 to \$179.7 million and in FY96 by 7.3% to \$192.7 million. Increased occupancy at the new hospital has played a role in the growth and confidence reflected in these projections. The FY95 growth also partially reflects a strong year for hospital receipts in FY94 when the Department of Health & Hospitals achieved its revenue projection and no accrual took place at the end of FY94. This left FY95 in a stronger position to begin the year than had been the case the last few years.

State Local Aid. Since FY82 there have been three distinct phases in state local

aid funding policy. (For a more detailed discussion, see "Revenue Estimates & Analysis" section in this volume.) From FY82 through FY89, local aid policy was essentially a revenue sharing response to Proposition 2 1/2. A reasonable annual increase in local aid became an essential component in the financial planning for municipalities.

The second phase occurred during the FY90, FY91 and FY92 budgets. During this period, the Governor and the Legislature significantly reduced state revenue sharing with cities, towns, and regional schools. Between FY89 and FY92, state-wide cherry sheet aid declined \$602 million or 20% while all other state spending increased by \$1.5 billion or 15%.

In the third and most recent phase, which began with passage of the FY93 state budget, the Commonwealth embarked upon a multi-year commitment to increase and equalize funding for local education. While the Commonwealth's increase in education funding (holding other state aid level) was certainly preferable to the reductions of the FY90-FY92 period, it left municipalities in a quandary as to how to maintain other basic municipal services such as police, fire, and public works at a reasonable level.

In the FY95 budget, the Governor and the Legislature concurred in approving a \$40 million increase in lottery funding, and the Legislature passed an early local aid resolution for the first time since FY89. The FY96 state budget, as proposed by the Governor, increases lottery aid by \$51 million. However, the Legislature has not approved an early local aid resolution, and recent modest downturns in the FY95 and FY96 state tax revenue forecast has cast some doubt on the increases for educational reform aid and lottery aid as presented in the Governor's proposed FY96 budget.

The recent emphasis on educational funding over general revenue sharing is a severe handicap for Boston's ability to deliver adequate services. The increases in Boston's educational aid for FY93, FY94, FY95 and proposed for FY96 have

averaged under \$10 million while the City's main account for general revenue sharing from the Commonwealth, the "additional assistance" line item on the cherry sheet has remained frozen. The educational aid growth compares poorly with the general revenue sharing increases in the FY82-FY89 period which averaged over \$20 million. In addition, the educational reform law requires numerous mandates on educational spending, and it is unlikely that the increased costs resulting directly from the mandates are covered by educational aid growth.

This is especially true for FY96 when five new charter schools for Boston have been approved by the Secretary of Education with the current funding plan by the Commonwealth being a transfer of Chapter 70 funds from the City's general fund to charter schools on a per pupil basis, without any increase by the Commonwealth in Chapter 70 aid. Without such an increase, the addition to the Boston school system of the five new independent charter schools will come only by means of a reduction of Chapter 70 aid for the rest of the school system.

Chapter 121A Distributions. The Chapter 121A legislation allows local governments to suspend the imposition of property taxes at their normal levels in order to encourage redevelopment. The City most recently used this mechanism to encourage development of FleetCenter and a new Genzyme manufacturing plant in Allston.

The Urban Redevelopment Corporation excise is a municipal excise in-lieu-of-tax for which the Commonwealth acts as the collector and distributor. In FY93 and FY94, the City collected Chapter 121A, section 10 distributions of \$27.6 million and \$26.9 million. In FY95 and FY96, Chapter 121A revenues are forecast to come in at \$23.7 million and \$25.8 million. A general trend of decline in this revenue source is somewhat misleading: Several 121A corporations have, or are in the process of, terminating their 121A special tax status and returning to regular Chapter 59 property taxation. Thus, the downward trend in 121A revenue is com-

pensated for by related increases in the property tax levy.

Teachers Pension Payments. Boston's cherry sheet includes an item unique to the City: the teachers' pension reimbursement for pension charges to the City. (The pensions paid to retired teachers from all other cities and towns in Massachusetts come directly from the Commonwealth via the State-Teachers Retirement System.) The City was reimbursed \$27.2 million in FY93 and \$28.2 million in FY94 for its funding of teachers pensions. Due to the early retirement incentive program for 250 teachers last summer, the FY95 and FY96 reimbursement is estimated in both years at \$34 million.

Budgetary Fund Balance. Budgetary fund balance, also referred to as free cash, is most simply described as the portion of the available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending.

The City accelerated its use of its budgetary fund balance as the Commonwealth dramatically cut back on local aid. The City appropriated from budgetary fund balance \$4.0 million for FY87, \$13.4 million for FY88, \$15.0 million for FY89, \$20 million for FY90, \$38.6 million for FY91, and \$10.9 million for FY92. By balancing expenditure reductions with drawing down of available reserves, the City was able to mitigate reductions in basic services during the Commonwealth's dramatic reductions of local aid. However, due to a number of factors, described in more detail in the "Revenue Estimates and Analysis" section of this volume, the City's free cash position is currently negative. The City does not currently anticipate being able to appropriate additional funds from the budgetary fund balance in the near future.

Non-Recurring Revenue. Use of non-recurring revenue to support the operating budget has not been a significant factor in the budget since FY92. The City does not plan to use non-recurring revenue in FY96, it has budgeted less

than \$1 million in FY95, and none was used in FY94. This is quite a contrast to 11 years ago when Proposition 2 1/2 had recently forced the City to forego hundreds of millions of dollars in property tax levy in order to reduce its net effective property tax rate to 2.5% and the City resorted to \$74 million and \$43 million in non-recurring revenue (partly from receipts from the sale of City garages) to support its FY84 and FY85 operating budgets. It is interesting to note that the property tax levy has increased as a portion of the City's revenue base from 34% in FY84 to 46% in FY95. As the City has become more dependent on the property tax levy, the City has arrived at the Proposition 2 1/2 threshold with a net effective tax rate of 2.45% in FY95. It is not inconceivable that should there be a major downturn in the future in the City's taxable real estate values, non-recurring revenue may be required to support a future operating budget as a measure of last resort.

Expenditures

Expenditures are broken down into two primary groups: appropriations directly related to departmental services, and fixed costs. Appropriations are further subdivided into four categories:

- *City Departments, which includes all operating department appropriations as well as a set-aside for tax title and annual audit expenses;*
- *Health & Hospitals, reflecting the up-front appropriation for the Department of Health and Hospitals operation of Boston City Hospital, Boston Specialty and Rehabilitation Hospital, Public Health, and Emergency Medical Services. This appropriation is partially off-set by Health & Hospitals reimbursements accounted for in the Revenues section of the Summary Budget;*
- *County Departments, including the departmental appropriations for the two county functions that are fully supported by the City of Boston, the Registry of Deeds and the Suffolk County Sheriff. It also includes a prorated share of the appropriations for Pensions and Annuities, Medicare Payments, Workers' Compensation, and employee benefits administrative expenses.*

- *School Department, the City appropriation for the Boston Public Schools.*

Figure 3 illustrates the distribution of the total \$1.245 million in departmental appropriations by cabinet area. Volumes II and III display the detail of each departmental appropriation following the cabinet structure established last year to maximize interdepartmental cooperation and streamline service delivery.

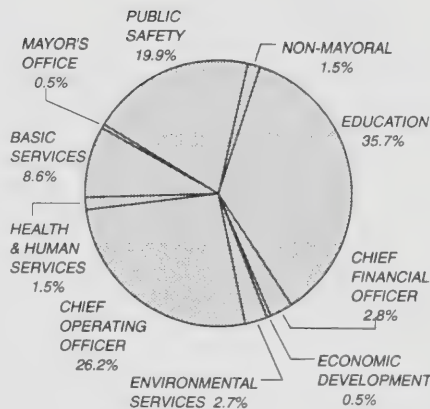
City Departments. Following two consecutive years of unprecedented decline in FY92 and FY93, the appropriation for City Departments has increased by a cumulative 12.7%. Personnel costs for newly negotiated collective bargaining increases, 120 additional police officers a year, and increased attention to basic services have driven this increase. Table 1 illustrates the trend in overall personnel levels, mirroring the revenue situation over these years. In FY96, 46% of the City Department expenditures are for Police and Fire services; 10% for Public Works (street cleaning, garbage collection, disposal, and recycling, highway maintenance, and street lights) and 13% for health insurance benefits.

<i>Changes in City Personnel (FTEs as of January 1)</i>					
	1984	1989	1993	1994	1995
City	11,686	12,156	10,518	10,188	10,335
County	613	491	955	348	54
Schools	6,286	7,247	6,536	6,831	7,047
Total	18,585	19,894	18,009	17,367	17,436

Table 1

After holding off salary increases for the years that revenues were in decline, collective bargaining increases were absorbed for agreements that exceeded the original FY94 and FY95 appropriations, resulting in supplemental increases for the largest departments. Nearly all agreements extend through FY96 and are fully budgeted in this appropriation.

The Mayor's commitment to community policing is effected through a pledge to add 120 new officers for the three fiscal years FY94 to FY96. The modest improvement in the economy and special initia-



FY96 Expenditures By Cabinet

Figure 3

tives to increase recurring revenues have allowed for this dramatic increase in police officers, reaching the highest level of uniform strength since 1980.

Departments providing basic services such as street cleaning, sanitation, code inspections, and parks and road maintenance have seen their appropriations increase about 50% more than the total for other departments for the last two years (adjusting for the cost of contracted sanitation service and street light utility costs). These departments have shifted resources to ensure that staffing increases, averaging 10% since 1993, result in proportionally larger increases of direct service labor hours by consolidating management positions.

The City has been addressing the issue of health benefit cost escalation with some results: the cost increase for FY96 is estimated to be below the rate of inflation for the third consecutive year. Labor-management cooperation has been successful in working out a recent re-bid of the City's indemnity health plan, and in educating employees about utilizing more cost-effective plan options.

Other initiatives within the City Departments appropriation include a reinvigora-

The FY96 School
Department budget
contains a 4.6%
increase.

tion of the Community Centers as a focus of educational and recreational development for youth, witnessed by a 30% budget increase in the last two years; a similar expansion of branch library services to draw on this neighborhood strength; and increased general support for community arts, services to senior citizens, and advocacy for those facing housing, economic, or other hardships, requiring more and more municipal involvement as other layers of government step away from an obligation to redress inequities.

Health & Hospitals. The Department of Health and Hospitals' (DHH) FY96 budget exceeds the FY95 budget by 16.6% (\$35.5 million). In FY96, for the first time, the DHH appropriation includes the costs for pensions, health insurance for retirees, and General Obligation debt payments. This adjustment reflects the City's effort to show all DHH costs in the DHH appropriation. Without this adjustment for the costs of pensions, health insurance for retirees, and GO debt, the increase over the FY95 budget would have been 5%. In general, the City's inpatient facility, Boston City Hospital, has felt the pressure of a more competitive health services environment challenging their ability to efficiently deliver services. To date, Boston City Hospital has managed in this environment better than had been projected in some studies. At the same time, work continues on merging the medical and public health programs with those of Boston University Medical Center, pursuant to an approved merger proposal.

County Departments. Prior to FY93, state support of county corrections for Suffolk County was by means of state aid into the City's general fund. In FY93, the Commonwealth shifted its support of county corrections from the City's general fund to directly funding the Sheriff's Department. Currently, the City is responsible for funding 20% of the Sheriff's Department's budget with the Commonwealth funding the rest. Because this is about four times the average local subsidy for county corrections, the City has requested a reduction by the Legislature

and the Governor for FY96. A similar initiative last year reduced the FY95 subsidy from 26% to 20%. In FY95, the overall County budget increased (by 4.8%) as the City's subsidy decreased because the City accounted fully for the subsidy within the department's appropriation, rather than splitting it, as in previous years, between the department's appropriation and the City's central fringe accounts. In addition to state and local funding, approximately \$3 million is collected each year in deeds excise tax in Suffolk County which directly supports county functions.

School Department The FY96 School Department budget contains a 4.6% increase. The School budget increased between FY95 and FY96 by \$19.4 million. All of the settled collective bargaining contracts are funded. Should pay adjustments be agreed upon subsequent to the publishing of this budget with the other unions, the School Department's budget will consequently be subject of further adjustment. In addition the FY96 budget funds the cost of inflationary increases for such expenditures as insurance, heat, light and power, telephone, water and sewer, and health and life insurance; also, funded in this budget are educational initiatives such as pilot schools, additional full-day kindergarten, high school accreditation issues, the school to work program and development and implementation of curricula. The School Department received one supplemental during FY95 for \$15.9 million to cover collective bargaining costs. During the last year and for the foreseeable future, school budget issues are driven largely by the new education reform law.

Chapter 70 funding has dominated local aid increases in FY93, FY94, FY95, and FY96. The FY96 impact of education reform on the school budget appears to be especially difficult. The increase in FY96 in Chapter 70 aid is projected to be \$5.7 million less than the increase received in FY95. Meanwhile, the approval of five charter schools in Boston will impact the school department budget by \$7.048 million in tuition costs plus additional costs in transportation.

Appropriations by Cabinet

		Approp FY95	Recom FY96	Variance
Office of the Mayor	Intergovernmental Relations	744,269	774,700	30,431
	Law Department	3,414,100	3,850,000	435,900
	Mayor, Office Expenses	1,391,442	1,465,000	73,558
	Press Office	188,560	198,800	10,240
	Total	5,738,371	6,288,500	550,129
Chief Operating Officer	Office of Chief Operating Office	305,720	376,500	70,780
	Human Resources	69,401,200	67,919,000	(1,482,200)
	Management and Information	6,800,678	6,705,000	(95,678)
	Printing Division	1,319,400	1,231,000	(88,400)
	Purchasing Division	841,589	977,100	135,511
	Health & Hospitals	213,385,500	248,904,000	35,518,500
	Management Fund	210,000	210,000	0
	Unemployment Fund	50,000	50,000	0
	Total	292,314,087	326,372,600	34,058,513
Basic City Services	Consumer Affairs/Licensing	320,700	371,800	51,100
	Election Department	2,370,800	2,658,000	287,200
	Election Listing Board	450,000	427,000	(23,000)
	Library Department	19,700,000	20,895,000	1,195,000
	Parks and Recreation	10,156,554	10,423,000	266,446
	Property Management	10,094,415	11,950,000	1,855,585
	Public Works Department	52,662,900	53,295,000	632,100
	Registry Division	658,400	711,100	52,700
	Snow Removal	3,250,000	3,250,000	0
	Youth Fund	3,500,000	3,500,000	0
	Total	103,163,769	107,480,900	4,317,131
Chief Financial Officer	Office Budget Management	2,161,041	2,117,000	(44,041)
	Labor Relations	447,800	468,400	20,600
	Workers Comp Service	511,400	513,000	1,600
	Assessing Department	4,821,250	4,792,000	(29,250)
	Auditing Department	1,339,230	1,418,000	78,770
	Executions of Courts	8,400,000	8,500,000	100,000
	Medicare Payments	1,490,000	1,620,000	130,000
	Pensions - City	7,200,000	6,900,000	(300,000)
	Retirement Board	1,123,800	1,361,000	237,200
	Treasury Department	2,554,182	2,794,000	239,818
	Workers Comp Fund	3,800,000	3,729,000	(71,000)
	Pensions - County	600,000	550,000	(50,000)
	Total	34,448,703	34,762,400	313,697
Economic Development	Minority/Womens Business	218,175	348,000	129,825
	Public Facilities	3,241,524	4,145,000	903,476
	Rent Equity Board	1,242,190	1,091,000	(151,190)
	Office of Boston Res Jobs Pol	0	275,000	275,000
	Special Events & Touri	931,700	954,600	22,900
	Total	5,633,589	6,813,600	1,180,011
Environmental Services	Environment	573,475	687,200	113,725
	Inspectional Services	8,310,000	8,697,000	387,000
	Transportation Department	23,106,325	23,855,000	748,675
	Total	31,989,800	33,239,200	1,249,400
Public Safety	Fire Department	89,854,097	92,008,000	2,153,903
	Police Department	144,057,500	155,145,000	11,087,500
	Total	233,911,597	247,153,000	13,241,403
Health & Human Services	Civil Rights - Office of	540,435	592,200	51,765
	Community Centers	9,915,400	10,870,000	954,600
	Cultural Affairs	277,988	312,100	34,112
	Elderly Commission	1,787,600	1,909,000	121,400
	Emergency Shelter	336,179	386,000	49,821
	Neighborhood Services	1,001,900	1,026,000	24,100
	Community Partnerships	549,368	596,700	47,332
	Veterans Services	2,425,900	2,488,000	62,100
	Womens Commission	105,125	116,200	11,075
	Total	16,939,895	18,296,200	1,356,305
Other	City Clerk Department	617,940	625,200	7,260
	City Council	2,570,670	2,810,000	239,330
	Finance Commission	140,760	145,000	4,240
	Licensing Board	431,000	435,100	4,100
	Registry of Deeds	1,566,000	1,606,000	40,000
	Sheriff's Department	12,979,489	13,304,000	324,511
	Total	18,305,859	18,925,300	619,441
Education	School Department	424,818,003	444,177,100	19,359,097
	Total	424,818,003	444,177,100	19,359,097

Pensions The City's pension expense has remained relatively stable over the last several years as the percentage by which the overall liability has been funded has continued to improve. Examination over the longer term shows a downward trend with the annual City pension funding averaging \$105 million in FY92 - FY96 and \$122 million in FY87 - FY91. The reasons for this are several. First, pension reform laws of the 1980's increased the percent set aside for pension funding out of new employees' checks from 6% to 8% to greater than 8%. Over time this has come to improve the City's funding position. Second, the average annual rate of return on assets (over 11% for the period covering 1985 through 1993) has significantly exceeded the 8% rate of return assumed in the pension funding schedule. Third, several difficult budget years either reduced the City payroll or allowed it to grow slower than had been assumed in the pension funding schedule. These last two items, often called "actuarial gains," are incorporated into the City's pension funding schedule each time the pension system does a full valuation. State law calls for full valuations at least every three years. The most recent valuation was recently approved during FY95 and the pension system is therefore required to do another full valuation in time to adjust the pension funding schedule for FY98 forward.

Debt Service. The level of expenditure for debt service in the budgets from FY90 through this proposed FY96 budget (including DHH debt) has remained very stable, staying within an \$86 million to \$89 million range. Debt has tended to decrease as a percentage of the total budget, going from the 7%-9% range from FY81 through FY87, to staying under 7% since. The City has been resourceful in managing its debt. It made maximum use of the recent period of historically low interest rates with three major refinancings (one was for hospital debt rather than for City general obligation debt). During the recent difficult budgets in which revenues decreased and personnel was reduced, the City exercised restraint in its capital spending and also made use of more flexible debt structure

to even out its future debt payment schedule. In general, however, the City has maintained an overall debt retirement schedule and debt ratios which are reasonably conservative.

State Assessments. Accompanying the local aid distributions on the cherry sheet are several charges to the City from the Commonwealth. All but the state assessment for the Massachusetts Bay Transit Authority (MBTA) are relatively small. In accordance with Proposition 2 1/2, these charges, on a statewide basis, cannot increase annually by more than 2.5%. Consequently, the City's state assessment has grown slowly from \$51.3 million in FY91 to an estimated \$61.1 million in FY96. The MBTA costs have traditionally grown at a much faster pace than the allowable 2.5% increase in state assessments and consequently so has the Commonwealth's annual subsidy to the MBTA.

Reserve. The City is required by law to maintain a reserve on its balance sheet of 2.5% of the prior year appropriations (not including the School Department which has its own separate reserve). The current balance of this reserve is \$17.925 million. If City Council approves the current budget as proposed, or without major decreases, the City will need to add approximately \$600,000 to the Tregor reserve prior to setting the tax rate in December 1995. Because of budget reductions in FY92 and FY93, this would be the first allocation the City will have been required to make to this reserve since FY91. The reserve is allowed to be used to provide for extraordinary and unforeseen expenditures and the Mayor may make drafts or transfers against this fund with City Council approval only in the month of June. Since the establishment of this reserve, the City has yet to make any drafts or transfers from the reserve.

Note: The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP) and publishes them annually in its Comprehensive Annual Financial Report (CAFR) and as an appendix in any bond prospectus issued by the City. However, the "budgetary basis" of accounting prac-

tices established by the Massachusetts Department of Revenue are used in constructing each year's proposed budget, in the budget approval process, and in monitoring the budget throughout the year. Therefore all numbers used in this budget document are on a budgetary basis. For this reason there are no

descriptions or discussions of separate funds because one major way in which budgetary basis of accounting departs from GAAP is that while certain activities and transactions (e.g. debt service) are presented in separate funds in GAAP, in budgetary basis they are components of the general fund.

City of Boston Budget Summary
Dollars in Millions

	FY91	FY92	FY93	FY94	FY95	FY96
	Actual	Actual	Actual	Actual	Budget	Budget
REVENUES						
Property Tax Levy	555.6	583.3	624.7	660.2	689.94	714.69
Overlay Reserve	(26.4)	(27.8)	(34.0)	(35.0)	(34.90)	(36.76)
Motor Vehicle Excise	18.9	18.9	30.1	21.7	21.72	22.62
Room Occupancy Excise	14.7	12.9	14.1	15.0	15.00	15.70
Jet Fuel Excise	13.3	11.6	11.4	12.5	11.50	12.50
Departmental Income	147.6	146.9	139.1	139.3	128.18	140.11
Health and Hospitals	179.9	168.2	154.8	163.4	179.69	192.73
State Aid Distributions	369.9	328.6	308.4	334.0	346.66	359.35
121A Distributions	30.1	32.2	27.6	26.9	23.70	25.78
Teachers Pension Payments	26.0	26.4	27.2	28.2	34.00	34.00
Budgetary Fund Balance	38.6	10.9	0.0	0.0	0.00	0.00
Total Recurring Revenue	1,368.0	1,312.2	1,303.3	1,366.2	1,415.49	1,480.73
Non-Recurring Revenue	0.0	12.0	1.8	0.0	0.80	0.00
Total Revenues	1,368.0	1,324.2	1,305.0	1,366.2	1,416.29	1,480.73
EXPENDITURES						
City Departments	497.3	475.8	474.7	503.1	514.90	535.28
Health and Hospitals	194.4	183.0	182.8	194.1	213.39	248.90
County Departments	34.0	36.0	14.8	15.0	15.72	16.71
School Department	389.0	382.0	374.0	408.1	424.82	444.18
Total Appropriations	1,114.6	1,076.8	1,046.3	1,120.3	1,168.82	1,245.07
Pensions	113.2	106.3	112.0	98.9	100.54	93.03
Debt Service	86.0	86.0	89.1	87.2	87.35	81.57
State Assessments	51.3	52.4	55.2	58.3	59.57	61.06
Reserve	0.3	0.0	0.0	0.0	0.00	0.00
Total Fixed Costs	250.9	244.8	256.2	244.4	247.47	235.66
Total Recurring Expenditures	1,365.5	1,321.6	1,302.5	1,364.7	1,416.29	1,480.73
Operating Deficit-Prior Year	0.0	0.0	0.0	0.0	0.00	0.00
Overlay Deficit - Prior Year	0.0	0.0	0.0	0.0	0.00	0.00
Prior Year Deficit	0.0	0.0	0.0	0.0	0.00	0.00
Total Expenditures	1,365.5	1,321.6	1,302.5	1,364.7	1,416.29	1,480.73
Surplus (Deficit)	2.6	2.6	2.5	1.6	0.00	0.00

Tax Order

CITY OF BOSTON IN CITY COUNCIL

Appropriation and Tax Order for the fiscal year Commencing July 1, 1995 and ending June 30, 1996

ORDERED:

I. That to meet the current expenses of the City of Boston and the County of Suffolk, in the fiscal year commencing July 1, 1995 and ending June 30, 1996, the respective sums of money specified in the schedules hereinafter set out, be, and the same hereby are, appropriated for expenditure under the direction of the respective boards and officers severally specified, for the several specific purposes hereinafter designated and, except for transfers lawfully made, for such purposes only — said appropriations, to the extent they are for the maintenance and operation of parking meters, and the regulation of parking and other activities incident thereto (which is hereby determined to be \$7,000,000), being made out of the income from parking meters and, to the extent they are for other purposes, being made out of the proceeds from the sale of tax title possessions and receipts from tax title redemptions, in addition to the total real and personal property taxes of prior years collected from July 1, 1994 up to and including March 31, 1995, as certified by the City Auditor under Section 23 of Chapter 59 of the General Laws, and out of available funds on hand July 1, 1995, as certified by the Director of Accounts under said Section 23, and the balance of said appropriations to be raised by taxation pursuant to said Section 23:—

CITY DEPARTMENTS

OFFICE OF THE MAYOR

011-140-0000 ASD/Intergovernmental Relations
011-151-0151 Law Department
011-111-0111 Mayor, Office Expenses
011-411-0411 Press Office

CHIEF OPERATING OFFICER

011-140-0000 ASD/Chief Operating Officer, Office of
011-140-0000 ASD/Human Resources
011-140-0000 ASD/Management & Information
011-140-0000 ASD/Printing
011-140-0000 ASD/Purchasing
011-610-0600 Health and Hospitals Department
011-175-0175 Management Fund
011-199-0199 Unemployment Compensation

BASIC CITY SERVICES

015-400-3321 Cemetery Division
011-114-0114 Consumer Affairs & Licensing, Office of
011-121-0000 Election Department
011-110-0110 Library Department
011-300-0301 Parks and Recreation Department
011-180-0000 Property Management Department
011-311-0311 Public Works Department
011-163-0163 Registry Division, City Clerk Department
011-331-0331 Snow Removal
011-448-0448 Youth Fund

CHIEF FINANCIAL OFFICER

011-140-0000 ASD/Worker's Compensation Service
011-140-0000 ASD/Budget Management, Office of
011-140-0000 ASD/Labor Relations
011-136-0136 Assessing Department
011-131-0131 Auditing Department
011-416-0416 Capital Planning, Office of
011-333-0333 Execution of Courts, Damage Claims
011-139-0139 Medicare Payments
011-374-0374 Pensions and Annuities - City
011-192-0192 Retirement Board
011-137-0000 Treasury Department
011-341-0342 Workers Compensation Fund

ECONOMIC DEVELOPMENT

011-140-0000 ASD/M/WBE Office
011-188-0000 Public Facilities Department
011-384-0384 Rent Equity Board
011-140-0000 ASD/Boston Residents Jobs Policy, Office of
011-415-0415 Special Events and Tourism, Office of

	Personal Services	Contractual Services	Supplies and Materials	Current Charges and Obligations	Equipment	Special Appropriation	Structures and Improvements	Land and Non-Structural Improvements to Land	Total
011-140-0000 ASD/Intergovernmental Relations	521,150	146,630	2,500	104,420	0	0	0	0	774,700
011-151-0151 Law Department	2,840,000	843,200	42,100	51,300	73,400	0	0	0	3,850,000
011-111-0111 Mayor, Office Expenses	1,211,000	148,000	19,000	87,000	0	0	0	0	1,465,000
011-411-0411 Press Office	184,200	10,200	500	3,900	0	0	0	0	198,800
011-140-0000 ASD/Chief Operating Officer, Office of	344,810	23,190	2,500	6,000	0	0	0	0	376,500
011-140-0000 ASD/Human Resources	1,438,900	41,200	22,900	66,046,000	0	0	0	0	67,549,000
011-140-0000 ASD/Management & Information	4,215,500	1,163,300	136,400	1,129,500	60,300	0	0	0	6,705,000
011-140-0000 ASD/Printing	950,100	143,200	29,600	6,600	0	101,500	0	0	1,231,000
011-140-0000 ASD/Purchasing	822,310	132,000	13,750	2,220	0	6,820	0	0	977,100
011-610-0600 Health and Hospitals Department	113,319,900	57,831,000	17,839,400	3,070,200	269,600	56,573,900	0	0	248,904,000
011-175-0175 Management Fund	0	0	0	0	0	210,000	0	0	210,000
011-199-0199 Unemployment Compensation	0	0	0	0	0	50,000	0	0	50,000
015-400-3321 Cemetery Division	667,300	102,500	71,050	24,100	87,200	0	0	20,000	972,150
011-114-0114 Consumer Affairs & Licensing, Office of	334,700	24,100	7,500	2,500	3,000	0	0	0	371,800
011-121-0000 Election Department	2,564,000	377,000	57,000	85,000	2,000	0	0	0	3,085,000
011-110-0110 Library Department	14,846,500	3,173,790	2,445,310	429,400	0	0	0	0	20,895,000
011-300-0301 Parks and Recreation Department	6,261,100	1,379,700	277,150	484,200	14,700	469,000	0	65,000	8,950,850
011-180-0000 Property Management Department	7,490,100	3,855,500	422,800	179,600	2,000	0	0	0	11,950,000
011-311-0311 Public Works Department	15,392,400	36,193,300	679,500	829,800	0	0	200,000	0	53,295,000
011-163-0163 Registry Division, City Clerk Department	673,300	28,700	7,000	1,700	400	0	0	0	711,100
011-331-0331 Snow Removal	0	0	0	0	0	3,250,000	0	0	3,250,000
011-448-0448 Youth Fund	48,300	0	0	0	0	3,451,700	0	0	3,500,000
011-140-0000 ASD/Worker's Compensation Service	359,700	12,600	21,200	7,000	2,500	0	0	0	403,000
011-140-0000 ASD/Budget Management, Office of	1,346,050	455,500	9,600	22,850	0	0	0	0	1,834,000
011-140-0000 ASD/Labor Relations	421,740	20,940	2,000	23,720	0	0	0	0	468,400
011-136-0136 Assessing Department	4,015,300	305,800	68,900	392,000	10,000	0	0	0	4,792,000
011-131-0131 Auditing Department	1,347,300	37,900	7,800	23,600	1,400	0	0	0	1,418,000
011-416-0416 Capital Planning, Office of	220,100	56,900	1,750	4,250	0	0	0	0	283,000
011-333-0333 Execution of Courts, Damage Claims	0	0	0	0	0	8,500,000	0	0	8,500,000
011-139-0139 Medicare Payments	0	0	0	0	0	1,600,000	0	0	1,600,000
011-374-0374 Pensions and Annuities - City	0	0	0	0	0	6,900,000	0	0	6,900,000
011-192-0192 Retirement Board	1,260,800	100,200	0	0	0	0	0	0	1,361,000
011-137-0000 Treasury Department	2,088,800	217,900	431,700	52,900	1,700	1,000	0	0	2,794,000
011-341-0342 Workers Compensation Fund	0	0	0	0	0	2,979,000	0	0	2,979,000
011-140-0000 ASD/M/WBE Office	321,600	6,850	4,550	9,450	5,550	0	0	0	348,000
011-188-0000 Public Facilities Department	2,609,300	1,289,900	115,200	112,200	18,400	0	0	0	4,145,000
011-384-0384 Rent Equity Board	1,021,000	43,000	25,000	2,000	0	0	0	0	1,091,000
011-140-0000 ASD/Boston Residents Jobs Policy, Office of	269,000	500	2,500	250	2,750	0	0	0	275,000
011-415-0415 Special Events and Tourism, Office of	389,200	210,900	5,000	0	5,000	344,500	0	0	954,600

CITY DEPARTMENTS

PUBLIC SAFETY

011-221-0221 Fire Department
011-211-0211 Police Department

HEALTH AND HUMAN SERVICES

011-403-0403 Civil Rights, Office of
011-503-0503 Cultural Affairs, Office of
011-387-0387 Elderly, Commission on Affairs of
011-406-0406 Emergency Shelter Commission
011-412-0412 Neighborhood Services, Office of
011-188-0000 PFD/Community Centers
011-115-0115 Community Partnerships, Office of
011-740-0000 Veteran's Services Department
011-417-0417 Women's Commission

ENVIRONMENTAL SERVICES

011-261-0260 Inspectional Services
011-300-0303 Environment Department
011-251-0250 Transportation Department

011-161-0161 City Clerk Department
011-112-0112 City Council
011-193-0193 Finance Commission
011-252-0252 Licensing Board

TOTAL CITY DEPARTMENTS

COUNTY DEPARTMENTS

CHIEF OPERATING OFFICER

011-140-0000 ASD/Human Resources

CHIEF FINANCIAL OFFICER

011-140-0000 ASD/Workers Compensation Service
014-139-0139 Medicare Payments
014-749-1375 Pensions and Annuities - County
011-341-0342 Worker's Compensation Fund

014-745-0165 Registry of Deeds

014-747-0000 Suffolk County Sheriff's Department

TOTAL COUNTY DEPARTMENTS

	Personal Services	Contractual Services	Supplies and Materials	Current Charges and Obligations	Equipment	Special Appropriation	Structures Non-Structural and Improvements to Land	Total
85,456,800	2,350,400	1,955,400	1,974,700	270,700	0	0	0	92,008,000
133,688,800	6,925,000	5,432,800	8,020,000	1,078,400	0	0	0	155,145,000
527,100	49,300	7,500	6,500	1,800	0	0	0	592,200
284,800	13,700	4,000	7,100	2,500	0	0	0	312,100
1,590,100	141,700	47,700	129,500	0	0	0	0	1,909,000
188,300	179,500	7,000	11,200	0	0	0	0	386,000
937,100	53,100	25,900	8,400	1,500	0	0	0	1,026,000
8,330,100	1,795,000	134,000	194,300	0	416,600	0	0	10,870,000
139,500	448,200	7,000	2,000	0	0	0	0	596,700
744,900	125,000	8,000	1,610,100	0	0	0	0	2,488,000
111,500	3,700	500	500	0	0	0	0	116,200
7,266,900	705,050	107,560	596,350	21,140	0	0	0	8,697,000
639,500	25,700	11,000	11,000	0	0	0	0	687,200
13,633,700	6,914,900	1,064,700	2,153,700	88,000	0	0	0	23,855,000
593,940	18,750	11,000	1,510	0	0	0	0	625,200
2,468,500	152,700	47,300	34,000	107,500	0	0	0	2,810,000
141,140	2,760	400	700	0	0	0	0	145,000
404,400	18,000	7,300	4,900	500	0	0	0	435,100
446,942,540	128,297,860	31,650,220	87,960,120	2,131,940	84,854,020	200,000	85,000	782,121,700

	Personal Services	Contractual Services	Supplies and Materials	Current Charges & Obligations	Equipment	Special Appropriation	Structures Non-Structural and Improvements to Land	Total
150,000	0	0	220,000	0	0	0	0	370,000
110,000	0	0	0	0	0	0	0	110,000
0	0	0	0	0	20,000	0	0	20,000
0	0	0	0	0	550,000	0	0	550,000
0	0	0	0	0	750,000	0	0	750,000
1,471,280	100,000	30,000	3,600	1,120	0	0	0	1,606,000
3,887,600	0	0	0	0	9,416,400	0	0	13,304,000
5,618,880	100,000	30,000	223,600	1,120	10,736,400	0	0	16,710,000

FURTHER ORDERED:

II. That to meet so much of the expenses of maintaining, improving and embellishing in the fiscal period commencing July 1, 1995 and ending June 30, 1996, cemeteries owned by the City of Boston, or in its charge, as is not met by the income of deposits for perpetual care on hand December 31, 1994, the respective sum of money specified in the subjoined schedule be, and the same hereby is, appropriated out of the fund set up under Chapter 13 of the Acts of 1961 — the same to be expended under the direction of the Commissioner of Parks and Recreation:—

015-400-3321

Cemetery Division
Parks and Recreation Department
Personal Services

\$500,000



CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
THOMAS M. MENINO

April 12, 1995

TO THE CITY COUNCIL

Dear Councillors:

I transmit herewith an appropriation order in the amount of \$444,177,100 for the Boston School Department for FY96, submitted pursuant to the provisions of Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, as further amended by Chapter 701 of the Acts of 1986, Chapter 613 of the Acts of 1987 and Chapter 108 of the Acts of 1991. This appropriation represents a \$19.359 million or 4.56% increase over FY95.

The School Department projects an additional \$62,101,616 in external funds for FY96, for a total operating budget of \$506.279 million. In addition, the City's FY96 Capital Plan outlines \$36,073,900 in school investment.

One of the most important goals of this administration is to improve and reform education. To this end, the FY96 Boston School Department Budget commits funding for the following initiatives: five new pilot schools opening in September, 1995, seventeen additional extended day kindergartens, the Center for Leadership Development, the Lead Teacher Program, the School Improvement Awards, expansion of the Inclusion Model for Special Education Students, expansion of the Fine Arts program in the Elementary Schools, improvements essential for high school accreditation, continuation of Efficacy Training, continuation of school-based management, curriculum development (particularly Algebra), and maintaining the school to career program as well as other new initiatives. The FY96 Budget accommodates projected enrollment growth, adequately funds inflationary increases in fixed costs and fully funds the BTU and other existing collective bargaining agreements.

These initiatives are the beginning of the improvement and reform of the Boston Public Schools, to which I am committed. Let us join together to work for a better school system for all the children of Boston.

I respectfully request your support of the FY96 appropriation for the Boston School Department.

Sincerely,

Thomas M. Menino
Mayor of Boston

**CITY OF BOSTON
IN CITY COUNCIL**

ORDERED:

That pursuant to Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, and as further amended by Chapter 701 of the Acts of 1986, Chapter 613 of the Acts of 1987, and Chapter 108 of the Acts of 1991, to meet the current operating expenses of the School Department in the fiscal period commencing July 1, 1995 and ending June 30, 1996, the sum of FOUR HUNDRED FORTY-FOUR MILLION ONE HUNDRED SEVENTY-SEVEN THOUSAND ONE HUNDRED DOLLARS (\$444,177,100) be, and the same hereby is, appropriated, said sum to be raised by taxation pursuant to Section 23 of Chapter 59 of the General Laws: —

School Department

\$444,177,100

Revenue Estimates and Analysis

Revenue Estimates and Analysis

Overview

The revenue growth expected for FY95 and FY96 continues a positive trend for the City. (Figure 1.) This trend is linked directly to stability in the Commonwealth's financial situation and the strong regional and national economies.

This chapter begins with a review of the national and state economy and political trends which will impact Boston in FY96 and beyond. This is followed by an analysis of recent state budget trends and related implications for cities and towns. Finally, a detailed discussion of each of the City's major revenue categories is presented.

*The revenue growth
expected for FY95 and
FY96 continues a
positive trend for the
City.*

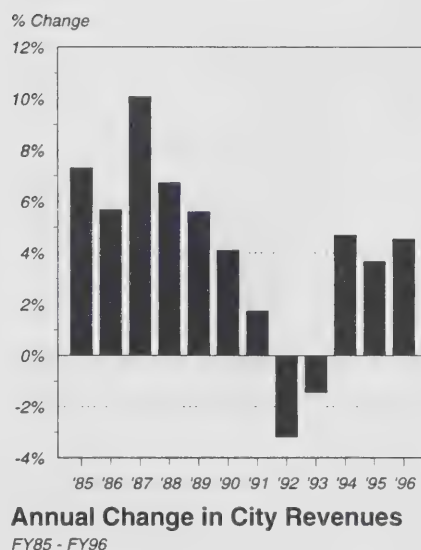


Figure 1

The Nation

The United States is currently experiencing a period of economic growth. When the economy officially emerged from the last recession in the second quarter of 1991, economic growth was slow at first. In order to stimulate more growth, the Federal Reserve continued to lower the federal funds rate, reaching a low of 3% in September 1992, down from a cycle high of 9.75% in February 1989. Lower interest rates helped the economy expand as gross domestic product measured in constant dollars grew 3.7% in 1992, 3.1% in

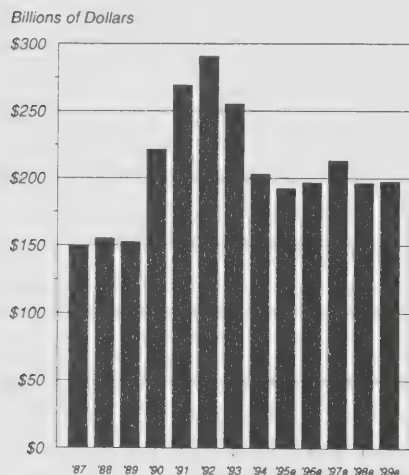
1993, and 4.1% in 1994, including an annualized growth rate of 5.1% in the 4th quarter of 1994. An expanding economy has also helped to increase employment as the seasonally adjusted unemployment rate for the United States for March 1995 was 5.5%, down from 6.5% a year earlier. Fortunately, inflation has not become a problem during this period of economic growth. Inflation in the United States for the year ending February 1995 was 2.9%.

In February 1994, the Federal Reserve began raising short-term interest rates in an attempt to slow the rapidly growing economy and prevent increased inflation. As of April 1995, the federal funds rate has risen above 6%. These interest rate hikes will slow economic growth in 1995 and 1996. Estimates for the increase in the gross domestic product from the Clinton Administration for 1995 and 1996 are 2.4% and 2.5% respectively. As the economy begins to slow, inflation pressures should subside.

Lower interest rates help the economy to grow by making money less expensive to borrow for such things as home purchases. For example, rates on 30-year fixed-rate mortgages fell to a 25-year low of under 7% in October 1993, stimulating economic growth. Since then, the conventional 30-year fixed-rate mortgage rate has risen to 8.84% as of February 1995, as the Fed has tried to slow the economy. Despite this, conventional 30-year mortgage rates remain historically low. As the Fed slows the economy by raising short-term interest rates, long-term interest rates and 30-year mortgage rates should come down a little further. Lower mortgage rates should keep the real estate market active for a while longer.

Recently, debate of national economic policy has focused upon the federal budget deficit. (Figure 2.) Congress has been unable to agree on a deficit reduction plan and has considered a balanced budget amendment. With or without it, there are likely to be severe cutbacks in federal programs as Congress proposes ways to reduce the federal budget deficit. Similarly, Congress is reviewing many specific plans to change the Federal role including moving many programs to

states as block grants. All of these efforts seek to balance the federal budget. Balancing the federal budget by 2002 will involve cutting over \$1 trillion in federal spending and will likely bring about an era of decreasing federal aid to states.



Annual Federal Budget Deficits
FY87-FY99

Figure 2

The Commonwealth

The Massachusetts economy is healthy and continues to grow. Employment in Massachusetts continued a mild trend of improvement in 1994. According to figures from the Massachusetts Department of Employment and Training, Massachusetts ended 1994 with 2.94 million non-farm jobs, the highest number since September of 1990. Massachusetts non-farm payroll showed a gain of 75,000 jobs in 1994, a gain of 2.6%. The Massachusetts seasonally adjusted unemployment rate for March 1995 fell to 4.6%, down from 6.0% a year earlier. (Figure 3.)

In the past, Massachusetts relied heavily on manufacturing for its growth, especially defense-related manufacturing during the Cold War. Since the end of the Cold War and with the effort to cut costs to balance the federal budget, the Commonwealth lost approximately 17,000 civilian defense-related jobs between 1990 and

1993. One economist expects Massachusetts to lose 6,000 manufacturing jobs a year for the next four years.

The Massachusetts economy has been changing from an economy dependent on defense and other types of manufacturing to a service economy. Massachusetts has lost over 30% of its manufacturing jobs since 1984. In 1980, manufacturing industry employment accounted for 25% of total Massachusetts non-farm employment. By 1993, it accounted for only 16%, a 13 year loss of 220,000 manufacturing jobs. Meanwhile, in 1993, total non-farm employment in the finance, insurance, real estate, and services industries accounted for 41%, up from 30% in 1980.

At the cutting edge of the service economy are some of Massachusetts' strongest growth sectors; high technology, biotech, health care, financial services, and education. Route 128 has become well known nationally as a leading high technology area while Boston and Cambridge have become home to several leading biotech companies. Massachusetts has always been a leader in health care, from the first public demonstration of modern anesthesia at Massachusetts General Hospital to the proliferation of managed care. Recently,

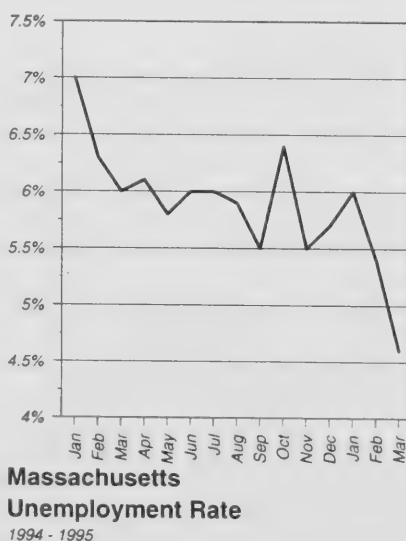


Figure 3

Balancing the federal

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states.

several hospital expansions and mergers have occurred, ensuring a future leadership role in health care for Massachusetts.

The Commonwealth is also home to many leading financial services institutions including John Hancock Financial Services, The Prudential Insurance Company, and Fidelity Investments. Since the first mutual fund was started in Boston, the Commonwealth has attracted leading mutual fund and financial services companies.

The Massachusetts economy is helped immensely by the 120 public and private colleges and universities within its borders. The largest and best known of these institutions include Harvard University, Massachusetts Institute of Technology, Boston College, Boston University, Northeastern University, and the University of Massachusetts. With the national movement toward a service economy, Massachusetts is well positioned for the future.

In 1993, the Commonwealth's manufacturing exports increased 0.3% to \$12.2 billion. The rate of growth in the Commonwealth's exports has increased slowly over time in comparison to some of the other states in the U.S., and has slowed significantly since the late 1980s. Exports from Massachusetts are expected to increase in 1995 and 1996 as currency rates make goods from the United States less expensive and as the countries of Europe continue to experience stronger economic growth.

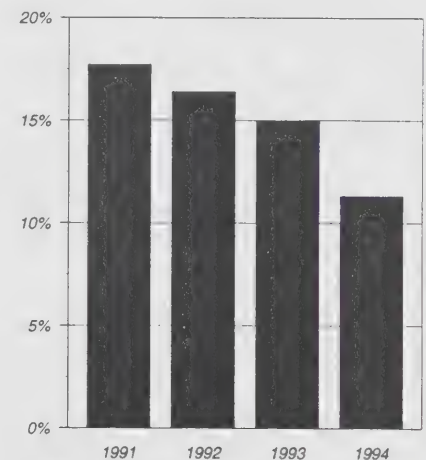
The City

The economy has continued to expand in Boston and New England. In 1994, 38,700 non-farm jobs were added in the Boston Primary Metropolitan Statistical Area.

Permits for housing construction, increased in 1992, 1993 and 1994 by 34.8%, 8.5% and 3.6% respectively. Similarly, the value of nonresidential building construction contracts in Massachusetts, after dramatic dips in both 1990 and 1991, increased by 35.8% in 1992, 7.1% in 1993 and 20.6% in 1994. The level is still well

below the 1987-1989 peak, however, and is more reflective of construction activity of tax-exempt institutions and public works projects than of a resurgence in commercial construction.

There are new signs of improvement in some of the variables which influence decisions by investors to go forward with commercial and residential development. For example, there has been a slight rise recently in some downtown commercial rents. After a tough time the last few years, the Boston commercial real estate market has stabilized and signs are pointing to better times ahead. Property values have begun rising again, rents are increasing, and vacancy rates are falling.



**Boston Office Space
Vacancy Rates**

Source: Meredith & Grew

Figure 4

(Figure 4.)

Demand for office space is increasing once again. At the end of 1994, office vacancy rates in Back Bay had fallen to 9.1% from 14.6% at the end of 1993. In the financial district, the vacancy rate fell to 10.7% at the end of 1994 from 15.5% at the end of 1993. Because office vacancy rates are dropping, rents are rising. At the end of 1994, the average asking rent per square foot in Back Bay had risen to \$23.20 from \$22.98 at the end of 1993. During the past 18 months, rents in top-

class office towers have risen about 30% and range between \$35 and \$45 per square foot.

Boston's housing market is currently characterized by rising rental costs due to short supply in the condominium market and rising single family home prices. Residential construction has picked up from recessionary lows but still is about half of what it was in 1986 and 1987. In Boston, apartment rents are rising. The supply of rental units is down as the sale of previously rented condominiums removed them from the rental market. The median single family home price in the Boston Metropolitan Statistical Area at the end of the third quarter of 1994 was \$185,400, up 6.4% from the third quarter of 1993. This compares with the median single family home price in the United States at the end of the third quarter of 1994 of \$108,000, unchanged from the third quarter of 1993.

The port of Boston is responding to the international economy with improved liner service to worldwide markets. In 1993, the Port attracted improved liner service for general cargo exports to Europe. The Port of Boston enjoys the only direct liner service between the Northeastern United States and Mexico. This service is faster and less expensive than either trucking or rail. Boston also recently developed a marine link to Halifax, Nova Scotia, and an on-dock rail link to the entire Canadian rail network. These connections have seen growing use following the 1994 passage of NAFTA. In 1995, the Massachusetts Port Authority will pursue improved service on the third major trade route, Asia. The Port of Boston saw record cargo growth in 1993 and 1994. This growth is due primarily to the growing Massachusetts economy. The Massachusetts Port Authority is forecasting continued, though less dramatic, growth for 1995.

The current construction of a new arena to replace Boston Garden is a major step forward for local development. The special legislation representing the negotiated agreement of terms among financiers, owners, and overseers of the public interest was signed into law early

in 1993. FleetCenter will open on September 30, 1995 and will cost \$160 million. This impressive modern arena will be home to the Boston Celtics and Boston Bruins, as well as host of numerous other sporting and entertainment events.

A flood of public discussion about a much more ambitious project, the building of a new convention center or a convention center and stadium megaplex has followed. A 13 member committee will study the issue and deliver recommendations this summer. Such a project would likely give a significant boost to the local economy. Meanwhile, an organized attempt has begun to bring the Summer Olympics to Boston in 2008. In 1999, a U.S. city will be chosen by the U.S. Olympic Committee to make a bid for the Games. The 2008 Olympics will be awarded in 2001 by the International Olympic Committee.

The Commonwealth Budget

Over the last four years, the Commonwealth has been relatively successful in balancing its own budget. This now gives the Commonwealth the capacity to support an adequate and diversified local revenue base and creates the potential to reduce the current over-reliance by municipalities on the property tax. The following summarizes the revenue and expenditure picture for the state budget.

Revenues. The Commonwealth's actual revenue collections consistently exceeded its revenue estimates for the last several years. This definitely plays a role in the improved financial outlook for the Commonwealth. Total FY95 revenues from all sources for the Commonwealth are expected to be \$16.730 billion, an increase of 4.7% from FY94. Circumstances have begun to change in FY95, however, such that certain state revenue sources have the potential to be modestly below earlier FY95 estimates. Should this prove to be the case, it would at least temporarily reverse the trend of the last several years and potentially make the Governor and the Legislature more cautious in their budget planning.

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The Commonwealth's largest source of tax revenue is its income tax. Income taxes collected by the Commonwealth were \$5.690 billion in FY 94, an increase of 5.9% from FY93. Income taxes in FY95 are expected to be \$6.028 billion, another 5.9% increase. Income taxes accounted for approximately 53.6% of total tax revenues in FY94. The Commonwealth's income tax rate has remained stable since FY92 for earned income at 5.95%, and since FY90 for unearned income at 12%.

The sales and use tax is the second largest source of state tax revenue, accounting for 21.7% of total tax revenues in FY94. The Commonwealth imposes a 5% sales tax on retail sales of certain tangible properties, including retail sales of meals, transacted in the Commonwealth, and a corresponding 5% use tax on the storage, use, or consumption of certain tangible properties brought into the Commonwealth. However, food, clothing, prescribed medicine, materials and produce used in food production, machinery, materials, tools and fuel used in certain industries are exempt from sales taxation. Property subject to other excises (except cigarettes) is also exempt from sales taxation. Sales and use tax revenues increased 8.4% to \$2.302 billion in FY 94 and are expected to rise 6.6% to \$2.454 billion in FY95.

Finally, the business corporations tax is the third largest source of state tax revenue, accounting for 7.4% of FY94 state tax revenues. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities, and safe deposit companies, are subject to an excise tax that has a property measure and an income measure. The value of Massachusetts tangible property not taxed locally or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 9.5% with a minimum of \$456. Both rates and the minimum tax include a 14% surtax. Tax revenues from corporations were \$782.3

million in FY94, a 6.1% increase over FY93, with \$851 million expected in FY95.

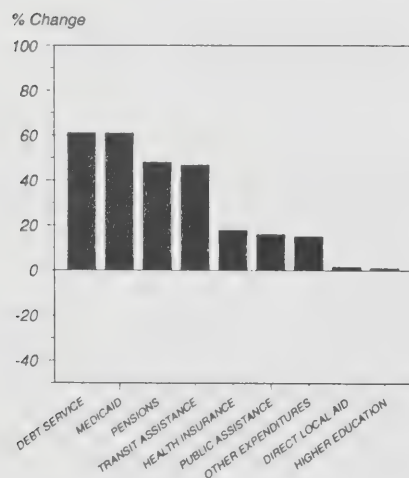
Recently, Governor Weld received approval from the Legislature for a sliding scale for capital gains taxes from 12%, if an asset is held for one year or less, to 0% for assets held more than six years. The capital gains tax reduction becomes effective on January 1, 1996 and therefore will not affect FY95 tax revenues and will affect FY96 tax revenues only slightly.

Several other changes in the Commonwealth's tax code have been enacted the last several years. Two income tax increases, passed in 1989 and 1990, dramatically increased state income tax revenues by raising the income tax rates for both earned and unearned income. These increases, along with budget cuts, were the major means by which the Commonwealth addressed its huge deficits in FY89 and FY90. In addition, the sales tax was extended to certain utility costs including telecommunications, netting an estimated \$100 million in FY92, \$112 million in FY93, and similar amounts thereafter. In 1990, the motor fuel excise was increased from 11 cents per gallon to 17 cents, and further increased to 21 cents in 1991. These rate increases have resulted in total motor fuel excise receipts going from \$301.9 million in FY90 to \$562.6 million in FY94 with \$575 million expected in FY95. A new excise tax of 1.25 cents per cigarette was enacted by petition in November 1992 and imposed beginning January 1, 1993. The additional excise has resulted in total cigarette excise receipts increasing from \$139.9 million in FY92 to \$237.3 million in FY94 with an increase to 240 million expected in FY95.

There have also been several tax reductions enacted recently, partially offsetting the income and other tax increases described above. For example, a major phased-in reduction in the estate tax was approved in 1992. The estate tax is phased out by increasing the basic exemption from the original \$200,000 level. The basic exemption will increase to \$500,000 in 1995 and \$600,000 in 1996. The estimated reduction in collections

for FY95 due to the phased in reduction in the estate tax is estimated to be at least \$72.5 million. It is unclear at this point whether the reduction in the estate tax has had the desired impact of reducing the migration of elderly Massachusetts residents out of the Commonwealth. If this proves to be the case, the estate tax reduction may in the long run be more than offset by increases in sales and income taxes.

Expenditures. From FY90 to FY95, total state expenditures have increased by a cumulative \$3.344 billion or 24.8%. The cost of Medicaid, pensions, debt service, and regional transportation has continued to climb, but the Commonwealth has made a major effort at controlling these costs on a long-term basis. As a result of funding reductions, the Commonwealth has been relatively successful in pressuring higher education, regional



State Expenditure Growth
FY90 - FY95

Figure 5

transportation, and municipalities, all entities with revenue sources of their own, into increasing their own revenues. (Figure 5.)

From FY90 to FY95, the Commonwealth's annual cost for debt service has increased 61.1% or \$470.9 million to an expected level of \$1.242 billion in FY95.

Part of this increase was due to the precipitous rise in capital spending by the Commonwealth, increasing between FY87 and FY89 from \$600 million to \$971 million. Subsequently, capital spending decreased in FY90, FY91, FY92 and FY93 to \$936 million, \$847 million, \$694.1 million and \$575.9 million. Capital expenditures have begun rising again, reaching \$760.6 million in FY94 with \$850 million expected in FY95 and \$900 million expected in FY96. Debt service as a percentage of total budgeted expenditures and other uses is expected to rise in FY95 to 7.5% from 7.4% in FY94.

Inasmuch as each year's debt service represents obligations for borrowings of the past two or more decades and is only slightly impacted by the current year's borrowing, it takes several years of reduced capital-spending levels to fundamentally impact the debt service level. In the near-term, what has profoundly impacted the cost of debt service is the financing of the FY90 \$1.252 billion deficit. Payments for debt service on the Commonwealth's general obligation bonds and notes totaled \$942.3 million in FY91, \$898.3 million in FY92, 1.140 billion in FY93, 1.149 billion in FY94, and are projected to be \$1.242 billion in FY95 and 1.267 billion in FY96. Of the \$5.371 billion spent on debt service from FY91 through FY95, there was \$1.155 billion in interest and principal payments related to Fiscal Recovery Bonds as a result of financing the FY90 budget deficit. The estimated future annual debt service on the Fiscal Recovery Bonds is \$278 million in FY96, \$278 million in FY97, and \$130 million in FY98, at which time the entire amount of the Fiscal Recovery Bonds will be paid.

From FY90 through FY95, the Commonwealth's annual cost for Medicaid has increased 60.9% or \$1.29 billion, offset by federal reimbursement of approximately \$645 million. Much of the above increase came in FY91. Since FY91, the average annual rate of growth in Medicaid spending has been approximately 4.6%, down from an average annual growth rate of 17% between FY87 and FY91 even though the Medicaid

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caseload has grown from approximately 523,000 in FY90 to 650,000 in FY95. This is due to a number of savings and cost control initiatives including managed care, utilization review, and third party liability.

The elderly and disabled population in Massachusetts is particularly dependent on Medicaid, which paid for 65% of all nursing home costs in Massachusetts in FY94 as compared to the national average of 43%. A host of ongoing initiatives addresses this and other Medicaid issues. These initiatives include a comprehensive managed-care approach to Medicaid administration, the repricing and buy-in of Medicare services for Medicaid patients, and restrictions on nursing home eligibility. The elderly population and the elderly Medicaid caseload in Massachusetts both continue to grow. The future burdens of long-term care on Medicaid expenditures are expected to remain high.

The Commonwealth's annual cost for higher education decreased at an annual rate of 1.1% from \$701.9 million in FY90 to \$672.6 million in FY94. In FY95, an estimated \$708.1 million will be spent for higher education. Governor Weld's FY96 budget recommends spending \$558.1 million for higher education but also recommends that the educational entities be allowed to keep a portion of their revenues to spend as they see fit which leaves higher education with essentially the same funding as in FY95. Major increases in tuition and fees were put in place between FY90 and FY94, including a 6% tuition increase for most campuses in FY92, a 4% tuition increase for all campuses in FY93, and a 2% tuition increase in FY94. In addition, non-resident student tuition now covers 100% of cost. Thus, as in the case of local aid, Commonwealth funding reductions have forced Massachusetts public higher education institutions to maximize their own resources.

The Commonwealth's annual cost for the Massachusetts Bay Transit Authority and other regional transit authorities has grown 47.3% from \$354.5 million in FY90 to \$522.3 million in FY94. Estimated ex-

penditures for this purpose are \$520.1 million and \$556.3 million in FY95 and FY96 respectively. This growth has been mitigated by fare increases, instituted partly in response to limits on Commonwealth funding for these authorities.

In FY93, Commonwealth officials, driven by practical considerations and availability of resources, reinstated increases in local aid in the form of aid earmarked for education. This period of increases followed three years of significant local aid reductions which played a key role in the Commonwealth's return to a balanced budget. The Commonwealth's annual cost for direct local aid has increased from \$2.359 billion in FY92 to \$2.984 billion in FY95. The following section looks at local aid in more detail.

Local Aid

In the past, local aid has referred primarily to distributions to municipal general revenues from the Commonwealth's Chapter 70 and additional assistance accounts (which had been jointly referred to as resolution aid) and from lottery distributions. The amount of these funds to be distributed each year to an individual community is described on the cherry sheet along with other relatively smaller Commonwealth programs such as library aid, school construction reimbursements and highway funds. The cherry sheet is sometimes issued on a preliminary basis when municipal budgets are debated in the spring and is revised or finalized subsequent to passage of the Commonwealth's budget. Since FY82, there have been three distinct phases in the Commonwealth's local aid funding policy.

Phase I, Revenue Sharing. From FY82 through FY89, local aid policy was essentially a revenue sharing response to Proposition 2^{1/2}. (For a description of Proposition 2^{1/2} see the section titled "Property Tax Levy") A reasonable annual increase in local aid became an essential component in the financial planning for municipalities, as the Commonwealth recognized that revenue sharing was es-

sential in maintaining critical local services.

During this period, the Commonwealth pledged to "share" an estimated 40% of the growth in the Commonwealth's three largest tax revenue sources: income tax, sales tax, and corporate excise tax. The 40% pledge was only actually achieved in half of the years from FY84 to FY91. But the Commonwealth's policy of sharing its growth in revenues did lead to local aid growth through FY89. In FY81, local aid amounted to about one-fifth of all municipal revenues statewide. In FY89, in contrast, it represented almost one-third of all local revenues.

Boston's experience was typical. Local aid represented 21% of all General Fund revenue in FY81. By FY89, it had increased to represent 32%.

Phase 2, Local Aid Reductions. The second phase in the Commonwealth's local aid funding policy occurred between March 1989, and the enactment of the FY92 budget. The Governor and the Legislature during this period reduced the Commonwealth's revenue sharing with cities, towns, and regional schools. Between FY89 and FY92, statewide cherry sheet aid declined \$602 million or 20% while all other Commonwealth spending increased by \$1.5 billion or 15%.

Prior to FY89, the lottery had been a source of annual revenue growth for most municipalities. From FY89 through FY92, the local share of lottery receipts was capped at \$306 million with the sizable annual excess going to support the Commonwealth's budget. The capping of these distributions was one further reason why municipalities received less aid from the Commonwealth in their FY90 through FY92 budgets.

With the exception of higher education, local aid suffered the largest cut of any major Commonwealth expenditure category between FY89 and FY92. As a result, local aid in FY95, even after recent increases, represents just 17.7% of state spending compared to 23% in FY80.

The reduction of local aid funding fundamentally altered the financial relation-

ship between the Commonwealth and its municipalities, ending an eight year period (FY82-FY89) in which a stable and dependable local aid funding policy allowed for planning and predictability in local budgets and services. The Commonwealth's retreat from local aid came at a point in time when many local sources of revenue such as new construction additions to the property tax levy, local option excise receipts, building permit receipts, and interest income were decreasing.

The impact of local aid cuts on the City is compounded because Boston faces extraordinary demands for services at the same time that so much of its land is exempt from property taxes. The population of the City nearly doubles during the day as commuters and visitors enter the City. As a result, the City must provide police and fire protection and has to clean up after twice as many people as it would otherwise.

In developing alternatives to local aid, Boston has had few opportunities to broaden its municipal tax base. The only available local option taxes are the jet fuel and room-occupancy excises. Although Boston has taken full advantage of these options since 1985, they add only a modest amount to total City revenues. Nationally, cities with a population of 300,000 or more generate, on average, less than half of tax revenues from property taxes because sales and income taxes allow for a more diversified tax base. But in FY95, 93% of Boston's local tax revenue comes from the net property tax levy.

Phase 3, Local Aid Recast as Educational Aid. The third and most recent phase in the Commonwealth's local aid funding policy began with passage of the FY93 Commonwealth budget which increased local educational aid by \$187 million statewide as the initial installment in a multi-year commitment to increase and equalize funding for local education, a commitment teamed with an effort to encourage education reform. Education reform aid to cities and towns statewide is expected to be \$1.622 billion in FY95 and the Governor's proposed budget for

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Since the inception of educational reform aid in FY93 up through the Governor's FY96 proposed budget, the City has received less than an average of \$10 million annually in new educational aid. This compares poorly with new aid amounts in the FY82-FY89 period which averaged over \$20 million.

FY96 includes \$1.818 billion of education reform aid, an increase of 12.1%. Boston's share of this aid is \$81.5 million in FY95 and is expected to be \$90.7 million in FY96, an increase of 11.3%.

The Commonwealth has increased local education aid at the same time that it has frozen support for other local services at current levels. While the increase in education funding was welcome, it left municipalities in a quandary as to how to maintain other basic municipal services such as police, fire, and public works at a reasonable level.

The FY93 education reform funding increase was mandated to be spent entirely on educational services. Responding to litigation which raised issues of equal access given unequal municipal capacity to support local school systems, the education reform law modified the FY94 educational aid distribution in two ways. First, a small amount of the aid was given as "tax equity aid" and allowed to be spent at the discretion of municipalities in which local spending on education was above a certain share of the local tax rate mandated by the Commonwealth. Second, some municipalities were required to increase their school funding from local sources of revenue because these communities were spending below the minimum level mandated by the Commonwealth.

In FY95, rising interest rates and a slowing economy have begun to slow the growth of business activity in the Commonwealth which has led to modest downward revisions of estimates of Commonwealth tax receipts. These lower estimates have caused the Legislature to consider a smaller increase in local aid for FY96 than the Governor requested in his proposed FY96 budget. While the growth in statewide local aid distributions in FY95 and FY96 (according to the Governor's proposed FY96 budget) is significant, growth in distributions to Boston will lag growth in total statewide local aid in FY96. According to Governor Weld's proposed fiscal year 1996 budget, statewide local aid will increase 8.4% in fiscal year 1996 but Boston will see only a 3.7% increase in its local aid. (Figure 6.)

In the final analysis, this most recent phase of local aid distribution places a handicap upon Boston's ability to deliver adequate local services. Since the inception of educational reform aid in FY93 up through the Governor's FY96 proposed budget, the City has received less than an average of \$10 million annually in new educational aid. This compares poorly with new aid amounts in the FY82-FY89 period which averaged over \$20 million. In addition, the educational reform act re-

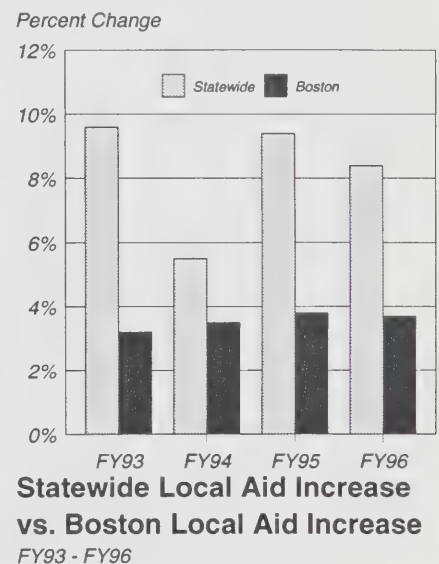


Figure 6

quires numerous mandates on educational spending, and it is unclear at this time whether or not the additional educational aid covers the cost of such mandates.

Charter Schools. A key component of the Commonwealth's education reform efforts are the charter schools. Seventeen of the 25 allowed under law are scheduled to open in September 1995. Charter schools are public schools administered independently from local school committee and teacher union rules and regulations. The Secretary of Education has approved five charter schools for Boston for September 1995 with an initial maximum total enrollment of 1,005 students and an initial maximum total tuition cost of \$7 million. The current law is for this "tuition" to be paid via

a transfer of Chapter 70 funds from the City's general fund to the charter school on a per pupil basis. At least in their initial years, the charter schools, under the current funding scheme, will be an expensive unsupported cost mandated by the Commonwealth. Local education will be immediately and directly impacted by the cost of the charter schools. In the longer term, it is assumed that the charter schools that thrive will increase overall enrollment which in succeeding years will increase funding for the school district in the Chapter 70 formula and mitigate the fiscal impact of charter schools on the Boston Public Schools.

Lottery Distributions. Lottery aid (including municipal stabilization aid) has increased 11.5% to \$389 million in FY95 and according to the Governor's proposed budget should increase 10.7% to \$430.6 million in FY96. The FY95 and FY96 increases are part of a commitment by the Commonwealth to phase out over five years its use of lottery revenue for purposes other than local aid. The FY95 and FY96 increases are part of a commitment by the Commonwealth to phase out over five years its use of lottery revenue for purposes other than local aid. Boston's share of state lottery aid (including municipal stabilization aid) has increased 13.4% to \$33.0 million in FY95 and, according to the Governor's proposed budget, is expected to rise 10.4% to \$36.4 million in FY96.

Teacher's Pension Reimbursements. Boston's cherry sheet includes an item unique to the City: the teachers' pension reimbursement. The pensions paid to retired teachers in all other cities and towns in Massachusetts come directly from the Commonwealth via the State-Teachers Retirement System. In a singular arrangement mandated by general law, pensions paid to retired Boston teachers are paid by the State-Boston Retirement System, which charges the City of Boston for this cost as part of its annual pension funding. The City is, in turn, reimbursed on the cherry sheet by the Commonwealth. In short, the Boston teachers' pension payroll is administered locally, but, as with all other teacher pen-

sions in Massachusetts, is the financial responsibility of the Commonwealth.

Boston's teachers' pension reimbursement increased 3.8% to \$28.2 million in FY94. Due to an early retirement incentive program for teachers, the FY95 and FY96 reimbursements are expected to jump to \$34 million.

Local Revenues

The City budget is primarily funded from local revenues which account for 76% of general fund revenue. What follows is a description of each of the City's major local revenues.

Property Tax Levy

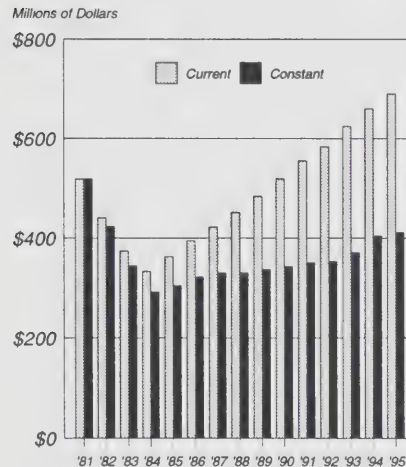
The property tax levy has been the City's most dependable source of major revenue growth during the past eleven years. In FY95, the property tax levy is \$689.9 million, providing 46% of all City revenue, and an increase to \$714.7 million is projected for FY96. The increases in the property tax levy have been steady and consistent from FY85 to FY95, ranging from \$28 million to \$41 million. However, because of the increasing property tax levy base, the \$29.9 million increase in FY85 represented an 8.9% increase, while the \$29.7 million increase in FY95 represents a 4.5% growth rate. As things stand, property tax is the City's only consistent long-term growth revenue, and its future growth, as explained in more detail below, is now in question.

Proposition 2^{1/2} has been the overwhelming factor affecting the City's property tax levy since being passed in 1980. Proposition 2^{1/2} limits the property tax levy in a city or town to no more than 2.5% of the total fair cash value of all taxable real and personal property. It also limits the total property tax levy to no more than a 2.5% increase over the prior year's total levy with certain provisions for new growth and construction. Finally, Proposition 2^{1/2} provides for local overrides of the levy limit and a local option to exclude certain debt from the limit. The City of Boston, however, has not voted to either override the levy limitations or exclude

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dependable source of
major revenue growth
during the past eleven
years.*

In spite of eleven years
of steady growth, the
FY95 property tax
levy in constant
dollars is \$107
million less than the
pre-Proposition 2^{1/2}
level.

any debt from the limit. Due to the requirement of Proposition 2^{1/2} that the total property tax levy equal no more than 2.5% of the fair cash value of the property in the City, Boston's property tax levy was reduced over three years from



Property Tax Levy
Current vs. Constant Dollars

Figure 7

\$518.6 million in FY81 to \$333.2 million in FY84. In spite of eleven years of steady growth, the FY95 property tax levy in constant dollars is \$107 million less than the pre-Proposition 2^{1/2} level. (Figure 7.)

In each year since FY85, the City has increased its levy by the allowable 2.5% under Proposition 2^{1/2}. These increases have grown as the levy has grown, beginning in FY85 at \$8.3 million and reaching \$16.5 million in FY95. During these same years, the levy has also been positively impacted by taxable new value, especially from new construction. This has added to the tax base. The combined effect of the allowable 2.5% increase and taxable new value has been an average annual total levy increase from FY91 through FY95 of 5.8%, and a projected increase in FY96 of 3.6%.

Proposition 2^{1/2}, as amended in 1991, allows growth in the levy beyond the 2.5% limit for any new properties and any increases in property valuations that are

not related to municipal-wide revaluations. This limitation is more flexible than the original limitations on allowable new growth and has helped to offset the downward trend in the City's taxable new growth and has permitted crucial revenue growth to a budget that has operated along the margins in the 1990's.

From FY85 through FY89, assessed property values in Boston increased at an average annual rate of about 22%, thus far outpacing the capped growth in the levy. Most of this increase was due to appreciation in the value of existing properties. This disparity between value appreciation and levy growth showed up in the significant downward trend in the property tax rates. The City's effective property tax rate in FY84 was 2.5%; by FY89 the effective property tax rate had fallen to 1.4%. When the disparity between value growth and levy growth flows in this direction, the City's property tax base becomes more protected (i.e., more distant from the 2.5% threshold tax rate that the City may not exceed under Proposition 2^{1/2}) and growth in average tax bills, with all else held equal, remains at 2.5%, even though the factors in the equation that determine the bill (value multiplied by the tax rate) have each changed dramatically in opposite directions (values up, rates down).

What occurred in the Boston real estate market beginning in 1988 significantly reversed the FY85 through FY89 property tax trends described above (which reflect real estate activity in calendar years 1983 through 1987). As economic activity slowed, Boston's real estate values leveled off. Then, as the New England region experienced a deep recession, activity in both the commercial and residential markets slowed more dramatically. Office vacancy rates increased significantly and downtown development came to a near standstill. All of this was reflected in the fourth City-wide revaluation which established values as of January 1, 1991 at \$29.8 billion, an 18.1% decline from the prior year's total taxable value. This was followed by an 8.4% trending down for January 1, 1992 values to \$27.3 billion and a 1.9% decline for January 1, 1993 to

\$26.8 billion. Recently, a fifth City-wide revaluation took place which established values as of January 1, 1994 at \$28.1 billion and showed that the real estate market had stabilized.

As values decreased in the early 1990s, the City continued each year to maximize the allowable levy increase under Proposition 2^{1/2}. Between FY90 and FY94 the levy increased each year by an annual average of 6.4%. This disparity (values down, levy up) reversed the previous tax rate trend: From FY82 to FY89 the tax rate had decreased every year due to values increasing faster than the levy; from FY90 to FY94 the tax rate rapidly increased. In FY95, the net effective property tax rate of 2.45% was extremely close to the Proposition 2^{1/2} ceiling of 2.5%. (Figure 8.) Boston has the highest net effective municipal property tax rate in Massachusetts. Should the real estate market (which is currently positive, albeit not fast growing) suddenly depreciate significantly again, the City's current position very close to the 2.5% tax rate threshold would lead to a required reduction in the property tax levy for the first time since FY84. This would have serious

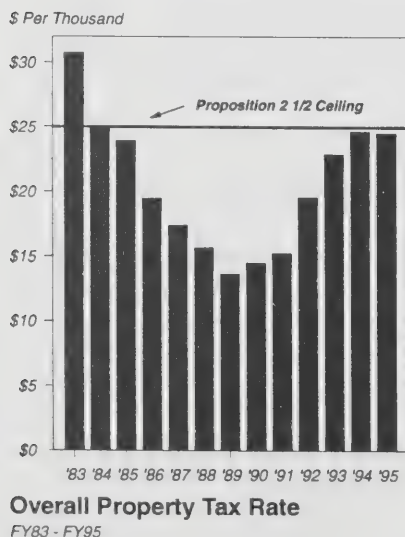


Figure 8

implications for the City's future ability to

maintain the current level of services. Fortunately, however, the real estate market has remained moderately healthy in 1994 and 1995.

Chapter 121A

The Urban Redevelopment Corporation excise is a municipal excise in-lieu-of-tax for which the Commonwealth acts as the collector and distributor. The Chapter 121A legislation, passed in 1960, allows local governments, in cooperation with their redevelopment authorities, to suspend the imposition of property taxes at their normal levels on properties determined to be blighted in order to encourage redevelopment of such properties by special corporations organized under this legislation. (In 1960, Boston had gone through an extended period of little new development.) The formula for the 121A, section 10 excise in-lieu-of-tax is the greater of: (a) \$10 per \$1,000 of the value established at the time in which the excise first becomes payable plus 5% of current gross income, or (b) the current tax rate times the average of the last three years' assessments for which the property was subject to local taxation (or the current assessment if that is less). During FY92, the Commonwealth removed 121A excise tax receipts from the cherry sheet, thereby distinguishing between local aid and collection of a local revenue source by the Commonwealth.

From FY88 through FY92 this revenue source exceeded \$30 million each year. In FY93 and FY94, the City received \$27.6 million and \$26.9 million in Chapter 121A, section 10 distributions. In FY95 and FY96, Chapter 121A, section 10 revenues are forecast to come in at \$23.7 million and \$25.8 million respectively. The general downward trend is due to some major properties in the City switching from 121A classification to normal Chapter 59 property taxation, including the commercial portion of the Prudential Center in FY93. To date, the resulting increase in the property tax levy from these changes in tax status has more than made up for the decrease in Chapter 121A revenue.

*Since completion of
the largest capital
project ever planned
by the City, Boston
City Hospital is a far
more efficient and
modern facility.*

In addition to the section 10 payments collected by the Commonwealth and described above, most 121A corporations have individual so-called "Section 6A" agreements with the City that result in additional payments directly to the City. These section 6A agreements are complex with actual amounts owed dependent on a formula that varies widely among the 121As. The City is currently embarking on a program to more thoroughly and systematically compare Chapter 121A payments and liabilities and to improve the collection rate. The City collected \$10 million in FY94 section 6A payments and the FY95 and FY96 budgets estimate \$7.5 million and \$9.5 million respectively.

Hospital Revenue

The City currently operates Boston City Hospital, a 357 bed acute-care teaching hospital which has been fully rebuilt during the last few years. The City financed the \$170 million renovation and new construction after securing a Federal Housing Administration loan guarantee in 1990. Since completion of the largest capital project ever planned by the City, Boston City Hospital is a far more efficient and modern facility. Patients were moved into the new Boston City Hospital on January 29, 1994. The occupancy rate at the new Boston City Hospital averaged 71% for the last six months of 1994. This compares with an occupancy rate that averaged 68% for the last 6 months of 1993, before the new hospital opened.

In addition, the City operates Boston Specialty and Rehabilitation Hospital (known also as Mattapan Hospital), a rehabilitative care facility. BSRH's average daily number of inpatients is approximately 74. Currently, Boston City Hospital accounts for over 90% of the City's hospital reimbursements.

Chapter 495 of the Acts of 1991, the most recent legislation governing statewide health-care reimbursement, moved Massachusetts decisively in the direction of market-driven pricing. Hospitals are allowed to set outpatient rates. Chapter 495 also converted the uncompensated

care pool to a free care pool by eliminating payments to hospitals for bad debts. This allows Boston City Hospital to recoup a larger share of the pool because a very low proportion of the persons receiving uncompensated care at Boston City Hospital have sufficient income to be classified as bad debts. This, in turn, offsets the decrease in Boston City Hospital's traditional Medicaid rate.

The largest form of payment for the patients cared for at Boston City Hospital is reimbursement for uncompensated care from the statewide free care pool. The second largest form of payment is Medicaid. Blue-Cross/Blue-Shield and commercial insurance play a smaller role than at most hospitals due to the nature of Boston City Hospital's patient mix, nearly 80% of which is drawn from the hospital's surrounding lower income neighborhoods and which includes many uninsured and non-paying patients.

Hospital revenue has been rising recently following two consecutive years of decline in FY92 and FY93. Over the long term, hospital reimbursements have been a steadily increasing revenue source for the City. Reimbursements from the hospitals are estimated to total \$179.7 million in FY95, increasing to \$192.7 million in FY96.

In 1994 Mayor Menino appointed a commission to advise on the future of health care in Boston. The nine-member commission, headed by former Chair of the Massachusetts Senate's Ways and Means Committee, Patricia McGovern, will ensure that the organization of the City's health care system is able to effectively and efficiently cope with the current and future changes in the health care industry. The McGovern Commission has been asked to do many things including create a model for a new and more efficient organization for the Department of Health & Hospitals, to review Boston's health care delivery system and make recommendations to the Mayor to create a closer affiliation or consolidation of services between the Department of Health & Hospitals and the Boston University Medical Center Hospital, and to advise the Mayor on the future financial relation-

ship between the City, the Department of Health & Hospitals, and Boston University.

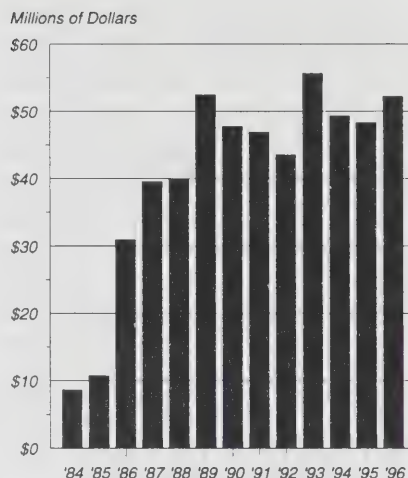
Motor Vehicle Excise

Following the recession, in FY93, the City's motor vehicle excise receipts surged dramatically upward to \$30.1 million, an increase of \$11.2 million from the prior year. An aggressive effort to collect on prior year bills heavily impacted FY93 collections. The key component of this collection effort was linkage of payment of motor vehicle excise bills with renewal of driving licenses and automobile registrations by the Registry of Motor Vehicles. A similar linkage on parking fines had proven to be an effective collection tool several years prior. Furthermore, the FY93 receipts were also pushed upward by a delay in issuance of bills in FY92. This delay effectively pushed some of the payments from FY92 into FY93. In addition, as employment growth and consumer confidence have increased, more people have returned to the market for new car purchases. The City's motor vehicle excise revenue returned to normal levels in FY94 at \$21.7 million. The strong local economy and increases in new car purchases are the reasons that motor vehicle excise taxes may exceed the midyear budget estimate of \$21.7 million in FY95 and are expected to climb to \$22.6 million in FY96.

Room Occupancy Excise

In 1985, legislation was enacted by the Commonwealth authorizing local option excise taxes on room-occupancy and jet fuel. These taxes were the first significant new revenue sources available to the City since the motor vehicle excise was enacted in 1928. The Commonwealth collects these taxes and distributes them to the City. In their start-up years (initiated in FY86; first complete year of collection in FY87), the jet fuel and room-occupancy excises provided needed revenue growth to the City. (Figure 9.)

The room-occupancy excise amounts to 4% of the total amount of rent for each occupancy (in addition to the existing



Excise Revenue

FY84 - FY96

Figure 9

statewide 5.7% excise). These receipts are driven by the fluctuations in room rates and occupancy rates. Since the institution of the excise, relatively few new hotels have been built in Boston. The growth of this revenue source has mirrored the economy because strong economic growth brings more travelers, higher hotel occupancy, increased room rates, and new hotel construction. Boston's occupancy and room rates are among the highest in the country. Healthy economic growth returned to the region and the nation in FY93, and not surprisingly, the City's room-occupancy receipts, being strongly affected by key discretionary spending areas such as tourism and business travel, recovered with increases in FY93 and FY94 of 8.6% and 6.9%. Since the economy has remained strong, FY95 room-occupancy excise tax receipts may exceed the midyear budget estimate of \$15 million and are projected at \$15.7 million in FY96.

Jet Fuel Excise

In addition to the room-occupancy excise tax, the Legislature, in 1985, enacted a local option excise on the sale of jet fuel

at a rate of 5% of the average sales price, but not less than 5 cents per gallon. The City actually collected the greatest amount from this new excise in its first full year, FY87. One reason that the jet fuel excise has tended not to increase is that the 5 cents per gallon has generally been the operative rate, since the price per gallon has generally remained under one dollar. In other words, jet fuel prices do not have an impact on excise collections as long as the price has remained under one dollar per gallon. Another major factor which limits jet fuel excise growth is the increased fuel efficiency of commercial aircraft which use Logan airport. Because fuel is such a major portion of their expenditures, airlines are strongly motivated to invest in improving the fuel efficiency of their fleet.

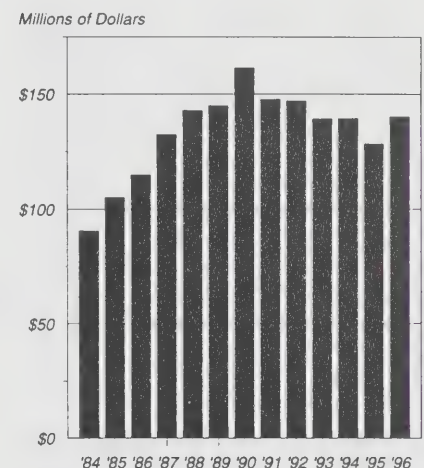
In FY92 and FY93 jet fuel receipts suffered a two year decline, coming in at \$11.6 million and \$11.4 million. Tourist and business travel to the region declined during the recent economic slowdown, contributing to the decreases for both the jet fuel and room-occupancy excises. Due to improvement in the economy, FY94 receipts rose to \$12.5 million. With economic growth still strong, FY95 jet fuel excise receipts may exceed the midyear budget estimate of \$11.5 million and are projected to increase to \$12.5 million in FY96.

Departmental Revenues

Departmental revenues consist of approximately 250 miscellaneous accounts including such diverse revenue sources as payments-in-lieu-of-taxes, health inspection fees, cemetery fees, parking fines, and interest income. In FY95, the City's midyear budget estimate for departmental revenues was \$128.2 million. Departmental revenue now accounts for less than 10% of total general fund revenue. (Figure 10.)

The fee and fine levels for many departmental revenues are under the direct control of the City. For example, changes in the City's fee or fine structure can result from either administrative actions or a vote of City Council, unlike new

tax options or local aid distributions, which require approval by the state Legislature. The most recent package of fee and fine increases was proposed, approved, and implemented just prior to the beginning of FY91. Currently, the Office of Budget Management is conducting a review of fees and fines with proposed changes to be presented to City Council several weeks after submission of the budget in April with the goal of implementation near the beginning of FY96. Preliminary review indicates that the



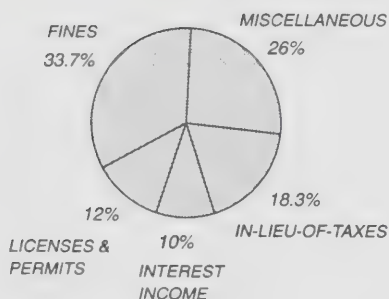
Departmental Revenue
FY84 - FY96

Figure 10

amount of revenue resulting from the fee and fine increases will not be as great as in FY85 or FY90 when increases in parking fines accounted for the most of the revenue increase.

Not under control of the City, however, is the level of economic activity that determines the number of permits, licenses or even fines that will be issued by the City. Recently, some of the largest departmental revenue accounts have begun to recover after falling for the early part of the decade. Interest income has risen dramatically in FY95 compared to FY94 due to the sharp rise in short term interest rates that began halfway through fiscal year 1994. The City received \$10.6 million in interest income in FY94 and

will exceed by a good margin the FY95 midyear budget estimate of \$8.25 million. The City expects to receive \$14.0 million in interest income in FY96. Building permit fees are expected to rise to \$9.2 million in FY95, with only a small decrease to \$9.0 million in FY96 expected. Parking fine revenue is expected to exceed the FY95 midyear budget estimate of \$43.5 million with \$45 million expected in FY96. These three sources, plus pay-



FY96 Departmental Revenues

Figure 11

ments-in-lieu-of-taxes, will represent approximately 67% of departmental revenues in FY96. Each of these categories are described in more detail below. (Figure 11.)

Parking Fine Revenues. The City currently issues approximately 1.7 million parking tickets per year and has for several years had a high rate of collection on these tickets. Major factors figuring in the City's successful collection rate include non-renewal of violators' registrations and licenses by the Registry of Motor Vehicles until penalties are paid, booting and towing of vehicles, increased ability to get fine payments from rental agencies, and systematic collection of fines for company cars. (Figure 12.)

The FY95 parking fine receipts projection totals \$43.5 million, \$6.4 million less than the peak in FY91. The decrease since FY91 has been driven by a lower ticketing level which initially occurred as the economic downturn reduced the number of commuters, business travelers, and tourists coming into Boston which, in turn, reduced the number of violations. Consequently, parking lots were no longer as full and actually lowered their rates. As the economy has strengthened, the number of commuters and business travelers in Boston has increased, but not to the point where ticketing has increased. Consequently, parking fine revenue has stabilized. The FY96 projection of \$45.0 million assumes a continuance of the lower issuance level of 1.7 million tickets that has been sustained in FY94 and FY95.

Interest Income. Interest rates have been rising steadily since the beginning of 1994, with the federal funds rate having doubled from 3% to 6%. This recent rise is a conscious effort by the Federal Reserve Board to ensure that the revived economy and the weakening dollar do not rekindle inflation which has been relatively low the last few years. One consequence of falling interest rates

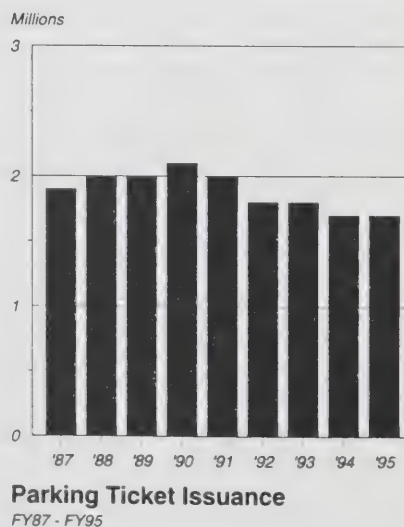


Figure 12

As a matter of
prudent fiscal
management, it has
been the
Administration's
policy not to utilize
non-recurring revenue
for the operating
budget other than for
non-recurring costs.

in the three years prior to 1993 was that the City's interest income was cut in half over the period from \$16.9 million in FY90, to \$8.5 million in FY93. In general, the City's level of investment earnings is a function of the level of prevailing short-term interest rates and daily cash balances. A conversion to quarterly billing for the property tax and quarterly distribution for local aid, both beginning in FY92, has had a positive impact on the average daily cash balance. The increase in interest income to \$10.6 million in FY94 was largely due to the crediting in July of approximately \$4 million in interest income from segregated bond funds. Due to the continued higher level of interest rates in FY95, the City has already exceeded the midyear budget estimate of \$8.25 million for FY95. Making the assumption that interest rates will remain relatively stable, the City projects interest income to be \$14 million in FY96.

Payments-in-lieu-of-taxes. Receipts for payments-in-lieu-of-taxes over the last several years have been a stable source of revenue. Approximately 75% of this revenue comes from Massport and the section 6A payments from Chapter 121A urban redevelopment corporations. Because both Massport and section 6A payments are based on formulas that tie the payment to some measure of revenue growth, and other in-lieu-of taxes payments are based on inflation which has been low recently, these payments have experienced significant growth over the long-term, but less growth in recent years. In recent years several non-profit entities have entered into new payments-in-lieu-of-taxes agreements with the City. These entities include some of the major universities and hospitals located in Boston. In 1994, the City signed initial agreements with two entities, Dana Farber Cancer Institute and Massachusetts College of Pharmacy.

In FY96, the City is expected to collect \$25.6 million in payments-in-lieu-of-taxes, up from expected collections of \$20.3 million in FY95. The increase in FY96 is due mainly to a new agreement signed with Massport which increases

their payment by approximately \$4 million.

Building Permits. Projections of building permit revenue are difficult, since the unpredictable timing of large-scale projects can result in dramatic swings upward or downward. Building permit revenue has been very steady recently, totaling \$9.1 million in FY92, \$8.8 million in FY93, and \$8.9 million in FY94. Currently, the City expects this trend to continue, projecting \$9.2 million in FY95 and \$9.0 million in FY96.

Budgetary Fund Balance

Budgetary fund balance, also referred to as free cash, is most simply described as the portion of the available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending. The law governing the calculation and availability of budgetary fund balance for cities and towns is Chapter 59, section 23 of Massachusetts General Law, and is administered by the Massachusetts Department of Revenue's Bureau of Accounts.

The City accelerated its use of its budgetary fund balance as the Commonwealth dramatically cut back on local aid. By balancing expenditure reductions with drawing down of available reserves, the City was able to mitigate reductions in basic services as local aid dropped. Beginning with FY86, the June 30th free cash balance was positive for five straight years, thereby freeing up funds for appropriation in the subsequent year budgets. The City appropriated from budgetary fund balance \$4.0 million for FY87, \$13.4 million for FY88, \$15.0 million for FY89, \$20 million for FY90, \$38.6 million for FY91, and \$10.9 million for FY92. However, due to a number of factors, this option is not available to the City in the near-term.

Due primarily to the necessity of using the maximum allowable amount of available fund balance in order to offset local aid reductions in FY90 and FY91, the City's June 30, 1991 free cash balance was negative for the first time since 1985. Due to the further appropriation of \$10.9

million in FY92 made available from the March 31, 1991 free cash update, the City's free cash balance has remained negative. The June 30, 1993 certification was a negative \$23.4 million. Other factors which have affected the negative free cash calculations were the small size of the FY91, FY92 and FY93 operating surpluses, and a greater amount of properties being reclassified into tax title without a concomitant increase in receipts for tax title properties. The City does not currently anticipate being able to appropriate additional funds from free cash in the near future.

Non-Recurring Revenue

Following the use of \$12 million in FY92 in non-recurring revenue to support the City's balancing act following dramatic local aid reductions in FY91 and FY92, the City's FY93 through FY95 budgets have averaged under \$1 million a year in non-recurring revenue to support the operating budget. As a matter of prudent fiscal management, it has been the Administration's policy not to utilize non-recurring revenue for the operating budget other than for non-recurring costs.

Acct #	Account Name	FY94 Actuals	FY95 Budget	FY96 Budget
	Property Tax			
	Real & Personal Property Tax	660,240,647	689,937,820	714,686,266
	Overlay Reserve	(35,044,328)	(34,902,076)	(36,756,138)
	Subtotal	625,196,319	655,035,744	677,930,128
	Excises			
	Motor Vehicle Excise	21,704,019	21,700,000	22,600,000
011-0129	Hotel/Motel Excise	15,033,090	15,000,000	15,700,000
011-0130	Jet Fuel Excise	12,452,708	11,500,000	12,500,000
011-0140	Condo Excise	93,500	90,000	90,000
	Boat Excise	24,512	20,000	20,000
	Subtotal	49,307,829	48,310,000	50,910,000
	Chapter 121A			
011-0167	Urban Redev.-Chap. 121A Sec. 6A	9,984,887	7,500,000	9,200,000
011-1013	Urban Redev.-Chap. 121A Sec. 10	26,893,707	23,700,000	25,780,000
	Subtotal	36,878,594	31,200,000	34,980,000
	Fines			
011-0501	Parking Fines	46,058,834	43,500,000	45,000,000
	District Court Fines	2,250,649	2,203,500	2,169,800
011-5104	Code Enforcement	92,410	50,000	45,000
	Subtotal	48,401,893	45,753,500	47,214,800
	Licenses & Permits			
011-0211	Building Structures & Permits	8,980,877	9,200,000	9,000,000
011-0215	Street & Curb Permits	1,127,700	1,150,000	1,150,000
011-0221	Health Inspections	961,356	900,000	920,000
011-0222	Alcoholic Beverages Licenses	2,169,694	2,180,000	2,170,000
011-0224	Entertainment Licenses	460,609	450,000	450,000
011-0225	Police & Protective Licenses & Permits	420,886	375,000	425,000
011-0229	Other Business Licenses & Permits	805,928	800,000	800,000
011-0235	Cable Television	1,556,272	1,560,000	1,600,000
	Other Licenses & Permits	355,342	360,000	360,000
	Subtotal	16,838,664	16,975,000	16,875,000
011-7151	Interest On Investments	10,616,623	8,250,000	14,000,000
	Payments-in-Lieu-of-Taxes			
011-0169	Massport-in Lieu	6,017,739	6,017,739	10,000,000
	Other-In Lieu	5,186,937	6,763,179	6,424,377
	Subtotal	11,204,676	12,780,918	16,424,377
	Miscellaneous Dept Income			
011-3105	Vital Statistics	798,408	800,000	800,000
011-3109	Liens	635,850	600,000	600,000
011-3120	City Clerk - Fees	350,445	300,000	300,000
011-3135	Rent Equity Services	1,019,711	75,000	75,000
011-3137	Public Health Support Payments	1,816,442	5,600,000	4,900,000
011-3202	Police Services	970,005	700,000	600,000
011-3211	Fire Services	1,566,818	1,600,000	1,600,000
011-3301	Parking Facilities	2,011,590	2,000,000	500,000
011-3311	Street-Walk & Curb Repair	3,814,110	3,500,000	2,300,000
011-4002	Tuition & Transport - Schools	516,022	525,000	525,000
011-7117	Workers' Comp. Reimbursement	813,881	1,300,000	1,300,000
011-7119	Settlements	121,103	120,000	300,000
011-7131	Pensions & Annuities	2,360,130	2,200,000	2,200,000
011-7132	Fringe Benefits & Indirect	547,874	550,000	500,000
011-7155	Prior Years Reimbursements	1,398,728	860,000	150,000
011-8000	Private Details - 10% Administration	1,458,188	1,450,000	1,450,000
	Other Misc. Dept. Income	2,129,913	1,778,075	1,923,762
	Subtotal	22,429,218	23,958,075	20,023,762

Acct #	Account Name	FY94 Actuals	FY95 Budget	FY96 Budget
Penalties & Interest				
011-0133	Penalties & Int.: Property Tax	1,491,766	1,000,000	1,200,000
011-0134	Penalties & Int.: Motor Vehicle Tax	2,962,397	2,000,000	1,500,000
011-0136	Penalties & Int.: Tax Titles	3,442,475	3,800,000	4,000,000
	<i>Subtotal</i>	7,896,638	6,800,000	6,700,000
County				
011-5106	Registry Of Deed Fees	2,222,478	1,950,000	1,900,000
011-5111	New Court House	0	0	158,930
	Other County Revenue	31,165	25,000	25,000
	<i>Subtotal</i>	2,253,643	1,975,000	2,083,930
011-2503	Parking Meters	9,000,000	3,500,000	7,000,000
011-2502	Cemetery Trustee	600,000	600,000	500,000
Health & Hospitals				
011-3401	City Hospital	151,981,174	166,450,000	180,734,000
011-3421	Boston Specialty & Rehab. Hospital	11,409,076	13,240,000	12,000,000
	<i>Subtotal</i>	163,390,250	179,690,000	192,734,000
State Distributions				
	R.E. Abatements & Elderly Exempts	1,303,636	1,303,126	1,292,518
011-1111	State Lottery Local Aid	27,232,544	33,014,135	36,441,703
011-1112	Highways - Local Aid	836,476	836,476	836,476
011-1114	Veterans Services - Local Aid	1,298,737	987,137	996,217
011-1015	State Owned Land	242,362	240,990	240,990
011-1016	Additional Assistance	206,638,214	206,638,214	206,638,214
011-1306	School Aid Chapter 70	66,640,086	81,515,065	90,728,497
011-1105	Municipal Stabilization Aid	3,257,725	0	0
011-4103	Library Of Last Recourse	2,552,447	0	0
011-1119	Racing Taxes	339,445	293,835	293,835
011-1301	School Construction - State	13,550,767	11,948,372	12,152,000
011-1311	Transportation Of Pupils	9,950,740	9,627,285	9,627,285
011-1316	Tuition for State Wards	139,955	256,242	106,365
011-1308	Recreational Programs	0	0	0
	<i>Subtotal</i>	333,983,134	346,660,877	359,354,100
011-1115	Reimbursement of Teachers' Pensions	28,222,746	34,000,000	34,000,000
011-2504	Budgetary Fund Balance	0	0	0
011-2500	Sale of Property	0	800,000	0
	Grand Total	1,366,220,227	1,416,289,114	1,480,730,097

FY96 Budget and Performance Goals

The FY96 Budget and Performance Goals Process

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Introduction

Performance, customer satisfaction, and government responsiveness are the cornerstones of Mayor Menino's government. City government is being redesigned to guarantee results and outcomes, and to provide Boston residents with high quality, cost effective service. Managing in this context requires budgeting and information systems that support and reinforce these objectives.

This year, the Mayor laid out six goals for his administration. These are:

- *Improving and reforming education*
- *Alleviating fear of crime in the neighborhoods*
- *Enhancing Neighborhood Pride*
- *Expansion of business and job opportunities*
- *Effective delivery of health and human services*
- *Positioning Boston as a leader for the 21st century*

In developing this year's budget, each department and cabinet was asked to suggest initiatives that would enable the Administration to realize the six major goals. This call for ideas resulted in hundreds of potential initiatives which could improve the delivery of City services. Many of the initiatives represented refinements to existing practices or could otherwise be readily adopted without additional resources. Other initiatives required additional resources. Ideas were reviewed in the context of budget development, resulting in funding for many of the new initiatives. These are described in the Executive Summary.

At the same time, each department and cabinet developed specific objectives with measurable outcomes for FY96. These were reviewed with the Mayor's Office to ensure the best possible use of resources.

Attaining the Mayor's goals requires a budgeting and accountability system that monitors and assesses the City's performance. The FY96 Budget integrates what were previously distinct but coordinated budgeting and goals reporting systems into one process that links budgets to measurable outcomes of goals achieve-

ments. The chart on the following page illustrates the steps taken to ensure that Mayoral priorities and initiatives were effectively integrated into the preparation of departmental budgets.

The FY96 decision making process focused on goals, results, and performance, and whether services are being provided efficiently and effectively. This provides the Mayor and City managers with the necessary foundation to measure attainment of City priorities.

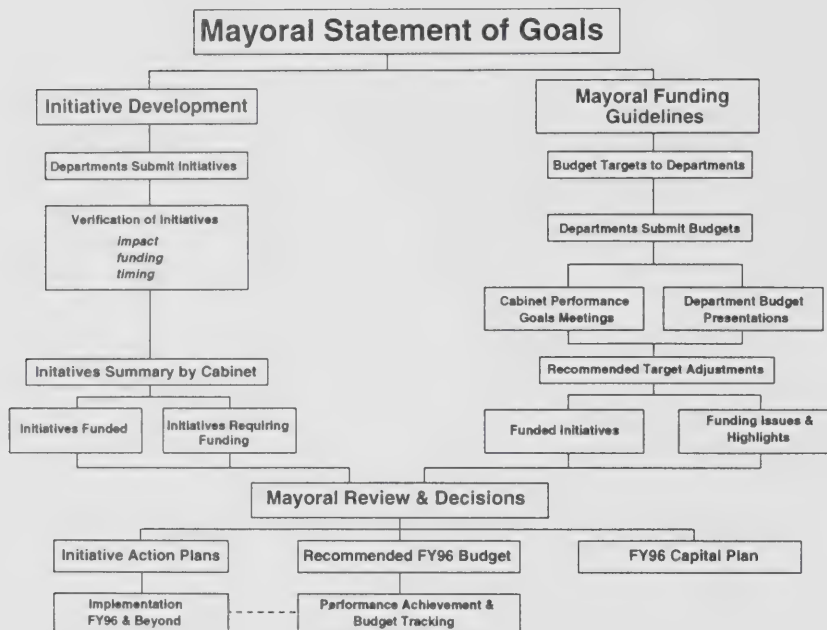
Accountability for Performance

The City's historical program budgeting and performance monitoring system, in place since 1988, provides a strong foundation of basic service level information. This foundation has proved useful for understanding the costs and goals of City services, including both detailed spending information and service levels for all City departments. Basic service level data address the question of what goods and services the City has provided and what can be afforded during the next fiscal year.

Addressing the Mayor's focus on customer satisfaction and accountability requires evaluating the method and quality of service delivery. This entails an emphasis on developing appropriate methodologies for measuring relative success or failure in meeting goals or reaching desired outcomes. It also means tracking and monitoring a department's performance over time and using the information collected to reassess operations.

Providing this information in an integrated and coordinated process is the first step toward fostering accountability and improving the management of City government. A revised budget and performance system, focused on identifying and measuring outcomes, provides the information needed by both the Mayor and managers to manage City services effectively.

This performance reporting system is designed to complement the cabinet form of government by providing clearly



defined outcomes for Cabinet heads to monitor and be held accountable for achieving. Outcomes identified by the cabinet level are reflected in the key measures that departments will operationalize and report on in FY96.

The FY96 Budget and Performance Goals Process has the following goals:

- to reinforce the Mayor's goals in department goal setting and resource allocation;
- to develop appropriate outcome indicators that encourage managing by information, increase accountability, and lead to advances in the way services are delivered; and,
- to increase the use and acceptance of the system by departments by linking high-level decision-making more closely to performance indicators.

The role of the Mayor's Office is critical to the success of the Performance Goals Process. Mayor's Office staff set policy and establish priorities for all City departments. They also identify City-wide goals. In a fiscal environment of limited resources, it is a Mayoral responsibility to balance competing goals, agendas and

tradeoffs. To ensure accountability and government effectiveness, Mayor's Office staff must monitor the accomplishment of key outcomes and review with cabinets and departments their performance to date.

Also critical is having the information infrastructure in place to support the gathering, analysis, and sharing of information that is essential to this process. To that end, during the course of FY96 all City departments will have been equipped with local area computer networks (LANs) and many department staff trained in new office-based software applications.

The Process

The FY96 Budget and Performance Goals Process incorporates budgeting and goal setting into one integrated process. Departments are asked to establish the best measures of program performance and commit to tracking and explaining initiatives and activities underway.

Key Goals for Cabinets

Example: To promote Boston as a vibrant city in which to live, work, visit, and play, and to coordinate the efforts to attract and host events adding to the quality of life.

Identifying Objectives

Example: To develop a “one-stop” special events logistics center to ensure all permits are in place and services are coordinated.

Identifying an Outcome Measure

Example: All permits in place within 30 days prior to an event.

Department Monthly Reports and Mayor's Office Review of Outcomes

Example:

	Level Promised	Level Achieved
Permits in place within 30 days	100%	95%

Step 1. Identifying Departmental Objectives

The first step in the process is the department's definition of a clear set of objectives. Objectives, defined as the result of the department's activities, address the charge of the department. This first step is critical since it helps define the department's sense of mission in terms of what it anticipates will be the result of its daily operations.

For each objective the department must identify at least one key measure of success in fulfilling its mission. These outcome measures provide the basis for monitoring the department's future performance. The department also reports any measurable activities that support the objective or further illustrate the program's effectiveness.

Step 2. Mayor's Office Review and Direction

The next step involves Mayor's Office and Cabinet review of the suggested objectives, outcomes, and measures. At this critical stage the Mayor's Office defines City-wide priorities and sets new policy directions. The Cabinet review focuses on reaching agreement with departments on the proposed measures of success and expected achievement levels for the next fiscal year.

Cabinet goals integrating the Mayor's Office priorities and direction are also established. These are stated as broad, long-term, policy objectives for Cabinet Heads to implement. Cabinet objectives filter down to the departments in the form of specific outcomes to be achieved through coordination with other departments, or as focus on a particular policy issue designated by the Cabinet Head. In addition to the specific policy directives, all Cabinets are directed to:

- ensure that residents have maximum access to City government and are satisfied with City services by meeting with, surveying, and responding to residents on a continual basis;

- actively pursue opportunities for cooperation and teamwork across City departments to solve problems or improve service; and
- strive to develop a professional, qualified workforce that is representative of the diversity of the City in order to achieve the high standards of productivity and efficiency set for every program in every department.

Step 3. Budget Preparation

The third step requires departments to prepare budgets within the targets established to accomplish the specifically identified departmental outcomes and goals. Department managers must determine what level of service can be supported with the resources provided—whether two or ten special events can be supported, for example.

Based on historical information, departments define baselines, identify service trends and set specific measurable levels to be accomplished. This process includes adjusting amounts budgeted for programs, redesigning processes to increase productivity, or increasing or decreasing programs to adapt to the new priorities.

Specific management goals of decreased abuse of absenteeism, timeliness of vendor payments processed within twenty days of invoice date, and decreased number of days lost to on-the-job injuries are integrated into the performance measures for each department.

Step 4. Finalizing Mayoral Decisions and Performance Levels

With the information on trends in services, resources, and Mayoral initiatives, changes to target budgets are prepared for final Mayoral approval. By developing “decision packages” or service bundles the department answers the question of what services can be bought for what amount of money. Resources must then be allocated among competing priorities in an effort to maximize the desired outcomes.

The performance-based budgets, including detailed City-wide and departmental objectives and outcomes, are presented to the City Council for approval. With the approval of the budget by the City Council, the Mayor has committed to provide to the citizens of Boston an effectively funded scope of services.

Step 5. Budget Approval and Implementation

Upon approval of the budget, but before the beginning of the new fiscal year, July 1, departments prepare to operationalize their commitments. At this stage discussion focuses on adapting department operations to accomplish new outcomes and maintaining budgeted levels of service. In the last year, the new cabinet worked out the in-depth performance reports of close to one-third of all departments. In FY96, all departments should be reporting on challenging, agreed-upon, integrated performance outcomes and indicators.

Starting July 1, departments will report monthly on actual performance toward achieving stated outcomes. Monthly reporting, that tracks actual against promised levels of service, closes the feedback loop necessary to promote accountability. The information provided in these reports forms the basis for the Mayor's Office review of departments' performance on key outcomes. This review and follow-up by Mayor's Office staff is a key element in providing Boston residents effective and efficient delivery of City services.

Summary

Providing effective and efficient government is the foundation of Mayor Menino's agenda. The bricks and mortar of this effort are the budgeting and performance goals system implemented to develop the FY96 operating budget. This information, with its focus on identifying, measuring, and monitoring results and outcomes is critical to guaranteeing Boston residents high performance government.

Financial Management

Financial Management of the City

Managing the City's finances is both a strategic and operational challenge. Strategically the finances must be managed to accommodate fluctuations in the economy and resultant changes in revenues. Operationally the financial management of the City means having clear financial goals, policies, and structures to implement the strategic direction.

Strategic Financial Management

The City must constantly work to maintain a healthy financial base from which to support City services in a way that reflects mayoral priorities. This objective is reflected in balanced budgets, new financial management systems, aggressive efforts to secure sound recurring revenues, and responsible spending reductions in light of revenue cuts. As Boston faces its fiscal future it must affirmatively tackle the financial challenges ahead.

Fortunately, the City's bottom line has stabilized. Boston is now in a better position to act affirmatively to control its financial prospects, though there are some ominous clouds on the horizon. But there is the need to do more. The following six steps are key in order to maintain fiscal health in the years ahead.

Manage even better and smarter. To meet this goal the City must:

- *Ensure that it has skilled managers to lead and supervise the workforce;*
- *Evaluate the current civil service system and find better ways to fairly hire, manage, and promote the most skilled employees;*
- *Work with City labor unions to ensure labor agreements that reflect 21st century workplace realities; and*
- *Strategically use technology to reduce costs and improve services.*

Rethink, reorganize and consolidate City government. The cabinet structure was a first step in reshaping City government to reflect the real needs of our businesses and citizens in the coming years. Holding each cabinet officer responsible for finding better, less expensive ways to meet these needs is the next assignment. Several specific initiatives have already begun.

- *A thorough audit of the Fire Department operations which will be completed in early FY96.*
- *Evaluating financial and management systems in the Boston Public Schools.*
- *The Police Department Strategic Planning initiative.*

Maintain Boston's physical infrastructure and expand capital investment in areas that improve operational efficiency. Schools and fire stations stabilize and anchor residential neighborhoods. Additional capital investment strengthens these anchors. But capital investment can also be a vehicle for improved service delivery efficiency, while reducing demands on the operating budget. The City must also take a close look at its technology needs and investments in technology to improve operating efficiency. For example:

- *The MIS department is developing a strategic technology plan.*
- *Both the Library and Community Centers will do strategic plans in FY96.*

Think more strategically about Boston's role in economic development. The City must determine the best way to encourage the businesses and jobs that enhance Boston's economic vitality. To this end, the FY96 Recommended Budget has clarified and focused the roles of the various economic development agencies, particularly the Boston Redevelopment Authority.

Diversify the City's revenue stream. Seventy-one percent of total revenue comes from just two sources—the property tax and the Commonwealth. Both of these revenues are strictly controlled by state law and legislative action. Several legislative proposals are discussed in the Executive Summary.

Achieve a more rational separation of state and municipal obligations. Finally, local policy judgments, rather than state mandates, must drive financial decisions. The unreasonable burden of Suffolk County corrections costs, and the looming cost of state mandated charter schools are two clear examples of vulnerability to state mandates that do not necessarily reflect local priorities or ability to pay.

These six items—smarter management, consolidated City government, investment in infrastructure, a coordinated economic development plan, a more diversified revenue base, and fewer state mandates—are prerequisites to the City's future financial health.

Financial Operations

This section summarizes the City's financial management operations by describing the offices and systems that implement the strategy, reviewing the City's capital borrowing, debt, and pension management systems, and summarizing key management initiatives.

Responsible Officials and Agencies

Boston's financial operations are ultimately directed by the Mayor. The Mayor is the chief executive officer of the City and has general supervision of and control over the boards, commissions, officers, and departments of the City. The City's Chief Operating Officer directs administrative services. City budget appropriations for all departments and operations of the City and Suffolk County, except the School Department and the county courts, are prepared by the Office of Budget Management, under the direction of the Chief Financial Officer.

Seven other departments which are included in the Chief Financial Officer's Cabinet have major roles in the City's financial structure.

The Chief Financial Officer serves as the City's Collector-Treasurer. The Treasury Department collects revenues due to the City and Suffolk County, and pays all amounts due for payrolls and to outside vendors. The Collector-Treasurer also manages the investment of City funds, and supervises borrowings by the City in the form of either short-term or long-term debt.

The Auditor monitors internal controls, manages grant funds, provides financial reports, maintains books and records of the City and County, and approves all pay-

ments made by the City and County. The Auditor is an ex-officio member of the State-Boston Retirement Board.

The Commissioner of Assessing supervises the Assessing Department and the valuation, for tax levy purposes, of real and personal property located in the City.

The Office of Budget Management prepares and monitors the City's capital plan and coordinates the long-range capital planning activities of City, County, and School departments.

The Office of Labor Relations oversees the City's relationship with its employees. Since labor is the single largest cost of government, this is a critical function to be closely coordinated within the Finance cabinet.

Similarly, the retirement and workers' compensation systems are overseen within the Finance cabinet through the Retirement Board and the Workers' Compensation Office.

Two decision-making bodies also fill prominent roles in the City's budget process. The legislative body of the City is the City Council, which consists of 13 members serving two-year terms. Four are elected at-large and nine are elected from geographic districts. The Council may enact ordinances and adopt orders which the Mayor may either approve or veto. Except for orders borrowing or appropriating money, the Council may override a mayoral veto by a two-thirds vote. The Council may reject or reduce a budget submitted to it by the Mayor, but may not increase it. For a description of the operating budget process see "Budget and Performance Goals" and "Budget Organization and Glossary."

The City's public schools are under the control of the School Committee which, as of January, 1991, is appointed by the Mayor. The School Department operating budget is submitted to the Mayor and City Council as part of a budget process parallel to, but separate from, the City and County.

Until FY91, the School Department regularly incurred operating deficits. Chapter 613 of 1987 placed stricter controls on

the School Department's appropriation process, in an attempt to limit the potential for overexpenditure, and strengthened the powers of the Superintendent vis-a-vis the School Committee. The Department, however, continued to deficit-spend. As a result the City needed to ensure that other City spending remained below available revenues in order to offset the School Department deficits. These annual School Department deficits continued through FY90, ending only with the creation of an appointed School Committee accountable to the Mayor.

Financial Administration

The City has established a system of internal management controls. These controls are designed to maximize revenue collections, monitor operating and capital spending, evaluate infrastructure needs, and professionalize the City's internal procedures. Major components of the City's system of financial management controls include:

Capital Planning: The Office of Budget Management's Capital Planning Office ("CPO"), is responsible for managing the capital budget of the City. CPO is responsible for the significant increase in the level of infrastructure investment, resulting in the protection and preservation of the City's capital assets and the creation of jobs in the construction sector. CPO's mission is to evaluate the condition of the City's capital stock, forecast the timing and financial requirements of new construction and rehabilitation, and recommend allocation of current and future resources to meet the City's infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses are taken.

CPO evaluates and refines the relationship between the City's capital needs and resources as the City moves through each fiscal year; this process is documented by an annually updated five-year capital plan. In March 1995, Mayor Menino released the capital plan, "Boston's Five-Year Capital Plan 1996-2000: Getting the Job Done." The plan details a \$788.2 mil-

lion capital budget through 2000 and reflects the administration's commitment to comprehensive planning and investment by spotlighting projects ranging from future economic development projects to strategies for neighborhood revitalization.

In addition to its planning functions, CPO also plays an ongoing project oversight and supervisory role during the implementation phase of its capital projects. CPO reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

Program-Based Budgeting: Since fiscal 1988 the City of Boston has maintained a program-based budgeting system to track expenditures and service levels by major functions or "programs." This budgeting system complies with the standards of the Government Finance Officers Association, which has consistently recognized the City's efforts with its Distinguished Budget Presentation Award.

The City is building on this base of budget and performance information to design a system of departmental accountability for service outcomes; that is, making sure services are delivered at the level expected, with a focus on customer satisfaction and service efficiency. OBM will assist in the collection and analysis of performance data to ensure proper documentation of results and to pursue opportunities for improvements. All financial commitments by departments are first reviewed by OBM for conformance with service priorities and funding availability.

Debt Management: The Treasury Department manages all City borrowings. The Treasury Department has focused on the timing of borrowings to take advantage of favorable market conditions and has carefully managed the City's cash flows to help obviate the need for short-term borrowings. The Treasury Department has established a series of debt management guidelines which direct the City's approach toward its debt management activities. The guidelines set forth the City's management approaches toward rapidity

of debt repayment, the use of a debt capacity model for establishing debt affordability, limitations on the level of variable rate debt the City will employ, maintenance of the relationship between debt and repayment sources, target savings for refundings, reporting and liaison with the financial community and the rating agencies, and similar areas of debt management.

The City uses a comprehensive, interactive Debt Capacity Model. This analytical tool assists City debt management administrators in evaluating the potential impact of debt issues on cash flow, credit and statutory debt capacity. The City's debt burden (net direct debt to assessed property value of \$26.76 billion) is currently 1.62%. The City's net direct debt per capita is \$788.11 as of June 30, 1994.

Two mainstays of the City's positive debt service position have been the relative stability of the total debt outstanding and the rapid retirement of debt. The City's total debt outstanding throughout the last decade has generally remained in the \$500 million to \$600 million range, and in any given year during that period at least 40 percent of principal outstanding has been scheduled to be retired in five years, and 70 percent in ten years.

Other factors have contributed to this favorable debt position in the recent past. First, the City took maximum advantage of recent low interest rates and did a large refinancing of City debt in February, 1993 and February, 1994, as well as refinancing of hospital debt in June, 1993. Second, the City slowed down the rate of capital expenditures in response to reductions in local aid in FY90-92, without making the fundamental error of abandoning capital spending altogether and thereby allowing the infrastructure to deteriorate. Third, in spite of the recent recession and two straight budgets with reduced revenue, the City maintained its improved bond rating and thus maintained the City's image in the capital markets. Fourth, the City has managed its cash flow such that short-term borrowings were not needed in each of the last six fiscal years. This has been possible in the last few years mainly because of the

switchover to quarterly billing for property tax and quarterly distribution of local aid. For more detail on the City's capital process see *Capital Planning*.

Property Tax Collections : The collection of property taxes has been improved by enhanced tracking systems and more thorough collection procedures and notifications, resulting in increased collections.

The City has implemented an aggressive enforcement program that continues to reduce the number of tax accounts that are delinquent, and to discourage new delinquencies. This program includes the adoption of stricter guidelines for handling delinquent taxes, utilizing a variety of collection remedies authorized by state statute and working closely with the Commonwealth to refine the tax collection system. For example, the City, following requisite approval from the Massachusetts Department of Revenue, was the first municipality in the Commonwealth to amend tax bills to include past due amounts. Initiated on second-half fiscal 1986 bills, the change clearly notifies taxpayers of prior years' balances whereas previously the City was only permitted to print the words "Tax Lien" on bills to signify that a delinquent balance existed. The City has implemented an automated tax information hotline that allows taxpayers to call from 7 a.m. to 10 p.m., seven days a week, for updated tax balances, duplicate tax bills or information on other tax related questions. These changes, coupled with letter writing campaigns to first-time delinquents, have resulted in a significant reduction in the number of past due accounts.

Integrated Financial System : Financial management is supported through the Auditing Department's application of the Local Government Financial System ("LGFS"). This computerized financial management and accounting system is designed to track standard accounting functions such as revenues, expenditures, accounts payable, accounts receivable and general ledger. In addition, LGFS performs the specialized functions of encumbrance control, fund accounting and grants management, as well as other accounting and

budgeting functions. The utilization of this system has improved the financial monitoring and reporting of funds management. On-line access to financial information allows department managers to evaluate directly the financial performance of their departments as a whole, as well as specific programs within their departments.

Financial Reports and Accounting Procedures : In addition to the five-year capital plan discussed above, the City, working through its financial departments, produces a number of reports which serve as important financial management tools. These include monthly cash flow reports (Treasury Department), monthly departmental expenditure reports, quarterly unaudited financial reports and a comprehensive annual financial report (Auditing Department). The monthly cash flow reports, monthly departmental expenditure reports and quarterly financial reports provide the City's fiscal administrators with additional sources of information to better manage departmental operations.

The Auditing Department has developed a fiscal year close process that limits and controls departmental appropriation reserves through encumbrances and closely monitors the amount of prior year reserves carried forward, which maximizes the City's undesignated fund balance. In addition, the process allows for the year-end close to be completed earlier in the year, an important factor in allowing the City to prepare for the following year's tax rate, and to send out its tax bills in a timely fashion. Timely mailing of tax bills is an important element in the cash management plan.

The Auditing Department maintains a document tracking system to monitor payment lag times, and recently initiated a City-wide vendor payment scheduling system. Both the tracking and scheduling of vendor payments ensures timely payments to vendors and enhances cash management. In addition, a system to monitor major utility payments (Boston Gas, Boston Edison) has been implemented to address disputes in an efficient and timely manner. This system

virtually eliminates late charges and ensures that the City is credited for improper billings.

Pension Reform: In fiscal 1989 the City opted to participate in a Commonwealth program for local retirement systems that commit to fully funding their pension liabilities. In agreeing to participate, the City committed itself to establishing a funding schedule incorporating a complete amortization of unfunded pension liability over a forty-year period while simultaneously setting aside sufficient funds each year to cover current liability. Pursuant to legislation initiated by a home rule petition approved by the City Council and the Mayor, which became effective in December 1991, the pension funding schedule for fiscal 1992 through 1994 was reduced to reflect recent actuarial gains and the remaining term of the schedule was reduced from thirty-seven to twenty-nine years. The City's retirement system completed a new pension valuation in December 1993 which, based upon further actuarial gains, reduced the pension funding level for fiscal 1994 through 1996, while maintaining the shortened schedule for reducing the unfunded liability to zero. According to one actuarial standard measure, since FY83 the State-Boston Retirement System (S-BRS) has gone from being 16% funded to being 63% funded. (Figure 1.)

Management Letters: Each year, following the completion of the financial statements, the City's independent auditors deliver a management letter containing comments and make recommendations on internal financial controls. The current management letter indicated no material weaknesses in the City's management. Specific management improvements have been recommended in the management letters, and many of the controls which the City has implemented originated from the auditors' recommendations. The auditors have commented favorably in successive management letters on the City's progress in addressing the auditors' suggestions. Through its own efforts and, when required, through appropriate legislation, the City intends to continue to modify and improve its in-

ternal financial controls with the advice of its auditors.

Pension Funding State-Boston Retirement System		
Fiscal Year	S-BRS FASB 35 June 30 Liability	S-BRS Assets
1994	\$2,309	\$1,450
1993	2,187	1,354
1992	2,036	1,196
1991	1,935	1,060
1990	1,933	1,028
1989	1,797	941
1988	2,038	749
1987	1,949	727
1986	1,889	517
1985	1,816	412
1984	1,676	383
1983	1,828	287
<i>millions of dollars</i>		

Figure 1

Contracting Procedures: The Uniform Procurement Act (Massachusetts General Laws Chapter 30B), enacted by the Commonwealth in 1990 (the "UPA"), creates uniform procedures for the contracting for services and supplies by all municipalities in the Commonwealth. The Auditing Department, working with the City's Law Department, has developed and implemented internal processes to conform City contracting procedures with the requirements of the UPA and other statutes specifying required contract procedures. During 1993, the City Charter was amended to raise the requirement of mayoral approval on contracts from \$2,000 to \$10,000. New policies and procedures have been instituted to incorporate the amendment.

Financial/Management Initiatives

The City has undertaken a number of major policy initiatives to improve its in-

ternal management system. Major elements of this system include:

Managed Rightsizing: In light of local aid reductions since FY89, the City was forced to make significant reductions in City spending. As a result of this downsizing, the number of total City personnel has dropped 13.3 percent since January, 1989. The City work force is currently smaller by 1,369 FTEs than in January, 1984.

The City has made a great effort to accomplish these reductions with as few layoffs as possible. With the exception of personnel reductions as a result of the closing of Long Island Hospital and planned downsizing at Boston City Hospital and Boston Specialty and Rehabilitation Hospital, most reductions have been accomplished through attrition. In the spring of 1991, the City offered a voluntary termination program to all employees. In addition, the Department of Health and Hospitals, the School Department, and the Inspectional Services Department have offered department-specific retirement incentive programs.

As the City's financial picture improved slightly since FY94, the size of the City workforce has increased, but at a rate less than half that of the overall revenue increase. The new personnel have been specifically targeted at priority items—new teachers and new police officers represent the majority of the increase.

Cost Controls: Additional steps taken to manage expenditures in the face of declining revenues include continuing restrictions on out-of-state travel, the assignment and use of City vehicles, and equipment purchases.

Health Insurance Cost Controls: In January, 1991 the City began a major new initiative to control the rapidly rising cost of employee health insurance. In consultation with City employee representatives, the City conducted an audit of Blue Cross claims that recovered over \$4 million, reduced stop loss insurance costs, and enrolled eligible retirees in Medicare to reduce City costs by an estimated \$1.4 million annually. In FY94, competitive bidding of Health Maintenance Organization contracts will save over \$2 million in

FY95. During FY95, the City bid its remaining health insurance contracts as well. In addition, the City has positioned itself to much more effectively negotiate rates in the future.

Risk Management Initiative: In the spring of 1992, the City established a formal risk management program. The program coordinates efforts of key staff departments (Personnel, Workers Compensation, Labor Relations, Health Benefits, Law, and Retirement) in working with line departments to reduce a variety of risk-related costs. In addition to data collection, new reporting systems, and aggressive education efforts, accomplishments to date include increased collections from third party insurers for damage to City property, more active health and safety committees, and revised medical billing systems to take advantage of available discounts. The City's first ever Risk Management Progress report was released in January, 1994 and the second annual report followed in 1995. The reports detail a significant reduction in rapidly increasing risk costs due to the efforts of the Risk Management Council.

Financial Controls

In addition to the management systems described above, the City operates under several statutory financial control systems. Certain controls established in the 1982 Funding Loan Act and its 1986 amendments set limits on flexibility in financial administration. Under the 1982 Funding Loan Act, for example, until April 15 of each year, the Mayor is authorized to reallocate no more than \$3 million between departments.

Expenditure Controls: Several financial controls were enacted by state law and implemented during the 1980's. An expenditure allotment system prevents departmental overspending of personnel appropriations. Additional state law provisions are directed at the control of School Department spending. The City has also added a departmental reserve consisting of a percentage of the personnel appropriations, to mitigate the effects

of any unforeseen expenditures during the year. These controls have aided the City in avoiding operating budget deficits every year since fiscal 1985, and have aided the School Department in avoiding operating budget deficits every year since fiscal 1990.

Reserve Fund: As required by law since 1986, the City has been maintaining a reserve fund equal to 2¹/₂% of the preceding year's appropriations for all City and County departments (except the School Department). The fund may be applied to extraordinary and unforeseen expenditures after June 1 in any fiscal year with the approval of the Mayor and the City Council. To date, this budgetary reserve has not been utilized. As of June 30, 1994, the reserve fund had a balance of \$17,925,000. No additional funds are required in fiscal 1996 in order to meet the fiscal 1996 statutory obligation.

Auditing and Budgeting Practices

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP). However, accounting practices established by the Commonwealth's Department of Revenue are used in the annual budget and property tax certification process. The statutory accounting system departs from GAAP in a number of respects. More technical discussions of these differences can be found in the City's official statements relating to bond sales, and in notes to its audited financial statements.

Fund Accounts

The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. There are currently no transfers between funds. The funds and account groups are organized into four types described below.

Government Funds are those through which most governmental functions are financed.

- *The General Fund is the City's most widely used fund. All financial resources, except those required to be accounted for in other funds, are in the General Fund; the detail of the fund comprises Volumes II and III of this budget submission.*
- *Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those detailed below) that are legally restricted to expenditures for specified purposes. Special Revenue Funds are also described in Volumes II and III of this budget submission within the relevant department section that oversees the management of these projects.*
- *Debt Service Funds are used to account for the accumulation of resources for, and the payment of, principal and interest on City debt.*
- *Capital Project Funds account for financial resources used to acquire, construct, or perform large-scale renovations to City-owned facilities. These funds are derived principally from general obligation bonds and from federal and state grants.*

Proprietary Funds include Enterprise Funds and Internal Service Funds. The measurement focus is upon determination of net

income, financial position, and changes in financial position. Accounting principles used for these Fund Types are those applicable to similar businesses in the private sector and thus, these funds are maintained on an accrual basis of accounting.

The City does not maintain Internal Service Funds.

Fiduciary Funds are used to account for assets held in a trustee capacity (Trust Funds) or as an agent (Agency Funds) for individuals, private organizations, other governmental units, and/or other funds. Trust funds include Expendable Trust Funds, Nonexpendable Trust Funds and Pension Trust Funds.

Account Groups: The General Long-Term Obligations Account Group is used to establish control and accountability for general long-term obligations not financed by and accounted for in Enterprise Funds. Examples are abatement refunds, accrued employee sick and vacation leave, and judgments and claims.

The City established a General Fixed Assets Account Group in FY94.

Capital Planning

Overview of Capital Planning

The Office of Budget Management's Capital Planning Office (CPO), is responsible for managing the capital budget of the City. CPO's mission is to evaluate the condition of the City's capital stock, forecast the timing and financial requirements of new construction and rehabilitation, and recommend allocation of current and future resources to meet the City's infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses are taken.

CPO evaluates and refines the relationship between the City's capital needs and resources as the City moves through each fiscal year; this process is documented by an annually updated five-year capital plan. In March, 1995, Mayor Menino released the capital plan, Boston's Five-Year Capital Plan 1996-2000: "Getting the Job Done." The plan details a \$788.2 million capital budget through 2000 and reflects the administration's commitment to comprehensive planning and investment by spotlighting projects ranging from future economic development projects to strategies for neighborhood revitalization.

In addition to its planning functions, CPO also plays an ongoing project oversight and supervisory role during the implementation phase of its capital projects. CPO reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

Highlights of the FY96-2000 Capital Plan

Boston's five-year \$788.2 million capital plan, entitled "Getting the Job Done," is an investment program for the City's future. The underlying framework for the plan emphasizes (1) the strategic use of infrastructure to promote economic development, neighborhood revitalization, quality education and health care, and public safety, (2) comprehensive planning to lay the foundation for future growth, and (3) effective government management to provide leadership and vision. This year's plan provides the founda-

tion upon which Boston will emerge a twenty first century leader.

This year's plan adds 110 new projects to the five-year horizon. Priority projects in the 1996 Capital Plan range from improvements to revitalize Boston's neighborhoods to renovations to thoroughfares, boulevards, and bridges to plans for establishing the schools, libraries and community centers as learning centers for all. Investments in public safety (a new police headquarters and renovations to neighborhood fire stations) will help to ensure the well-being of Boston's residents. Plans to reinvigorate the East and South Boston waterfront districts and to develop the South Bay industrial area will be implemented. Further investments will be made to enhance and develop Downtown and the Midtown Cultural District.

Capital planning in Boston is an ongoing, dynamic process. Projects initiated in the past several years are included in this plan as they move toward completion and new projects are identified. The 1996 Capital Plan provides a foundation to guide future capital planning and management. The projects are organized around themes as discussed below.

Neighborhood Revitalization Neighborhood revitalization is one of the City's top priorities. More than \$293.5 million in capital funds will be invested to enhance the cultural and economic vitality of Boston's neighborhoods. Public squares, sidewalks, and lighting will be improved to create inviting, safe business districts and residential areas. Roadways linking Boston's neighborhoods and providing access to goods and services will be rebuilt. Community centers and recreational facilities will be renovated to provide safe, enjoyable activities for families.

Public Safety To ensure the safety and well-being of Boston's residents, workers, and visitors, \$104.8 million has been allocated for public safety. Construction of a new police headquarters will begin in the summer of 1995. Phase II of the Computer-Aided-Dispatch (CAD) system will be implemented, enabling the Police Department to utilize state-of-the-art technology to improve operations and better respond to emergency calls. To en-

sure fire-fighting preparedness, several fire stations across the City will be renovated and fire-fighting equipment will be upgraded.

Public Education A major focus of the 1996-2000 Capital Plan is to establish Boston's public schools and libraries as community learning centers for all. To support this goal, \$154.8 million in capital funds has been committed. Master plans for the schools and libraries will be developed to ensure the needs of youth, families, and communities are served. Immediate issues related to high school accreditation will be addressed. A School Yards Initiative task force will create a blueprint for turning Boston's school yards into creative spaces where learning extends beyond the classroom.

Economic Development This year's plan supports 45 projects representing \$96.5 million in capital investment. To stimulate economic development, master plans for Boston's East Boston and South Boston waterfront areas will be initiated, and improvements made to Downtown and the Midtown Cultural District. To improve the City's infrastructure, key thoroughfares and bridges will be rebuilt. A study is planned to explore the development of large parcels of land along Melnea Cass Boulevard. The parcels offer an ideal location for new businesses. Development of the area could transform it into a "Crosstown Corridor" for the 21st century.

Health and the Environment In an ever-changing health care environment, the City maintains its commitment to quality health and environmental programs and facilities. Over \$76.2 million has been authorized to improve existing health care facilities and remove hazardous waste. Several older facilities at Boston City Hospital will be renovated. The historic FGH building will be rehabilitated and the Ambulatory Care Center modernized. To ensure access for physically challenged individuals, the Tobin building at the Boston Specialty and Rehabilitation Hospital (BSRH) campus will receive extensive updates.

Government Effectiveness Over \$47.5 million in capital projects, including improvements to City Hall and renovations to improve access for individuals who are physically challenged, are funded in this year's plan. A major initiative in this year's plan—the Pavement Management System—will allow the City to develop long-range goals and better determine capital needs. The City will continue the City Archives Study to assess the condition of important documents and to develop a storage plan.

Parks and Open Space Parks and Open Space projects will receive \$14.9 million in funding to restore numerous City parks and playlots. Infrastructure improvements are planned in each of the Emerald Necklace parks, including the redesign of Frog Pond on Boston Common and the renovation of Mothers' Rest playlot in the Back Bay Fens. This year's plan marks the completion of a ten-year period of investment in Boston's parks. Looking ahead, the City will begin to explore the future capital needs for Boston's parks.

In total, this year's capital plan is distributed among these themes as follows:

- 37% neighborhood revitalization
- 20% public education
- 13% public safety
- 12% economic development
- 10% health and the environment
- 6% government effectiveness
- 2% parks and open space

Revenue

The revenue to support the 1996 Capital Plan is derived from the sources indicated in Table I and detailed as follows.

General Obligation (G.O.) Bonds Capital investment in Boston is financed primarily by general obligation bonds, representing more than 73% of capital fund revenues. Over the past decade, the City has sold \$594.8 million of general obligation bonds, including \$70 million issued in September 1994. This new plan assumes \$360 million of new general obligation borrowings.

Table I
Revenue Sources
FY96-2000 Capital Plan
(dollars in millions)

General Obligation	\$576.899	73.19%
State Funds	\$118.541	15.04%
Federal Funds	\$91.136	11.56%
Trust Funds	\$0.150	.02%
Other Funds	\$1.535	.19%
Total	\$788.261	100%

State and Federal Funds State and federal funds are currently estimated at similar levels as a source of capital financing—\$118 million from the state and \$91 million from federal programs. General levels of support from both sources have diminished greatly over the past several decades, but several specific programs remain as key resources for Boston's Capital Plan. Examples of these programs include:

School Building Assistance Program

This is an important revenue source for school renovation and construction. The State Department of Education reimburses a percentage of the project costs on an annual basis. The City is pursuing legislation to increase the percentage of school building assistance.

Chapter 90 Funds

Administered by the Massachusetts Highway Department, Chapter 90 funds are derived from state gas tax revenues and are a formula distribution to all cities and towns in the Commonwealth. Based on current allocations, \$11 million in Chapter 90 funds are anticipated annually.

Surface Transportation Program

A program established through the federal government's \$151 billion Intermodal Surface Transportation Act of 1991 (ISTEA), the Surface Transportation Program funds 80% of the cost of construction for major local road projects. This capital plan carries 22 projects to be supported by this program.

Trust Funds The City's Trust Office manages trust funds and bequests from private citizens that are dedicated to Boston's public spaces. While these trust funds represent a small percentage, less than 1% of the overall revenue to the capital fund, they play an important role. Grants from the Edward Ingersoll Browne Trust Fund have been used for the restoration of neighborhood parks and public spaces.

Capital Improvements and Operating Impacts

This year's capital plan represents a greater level of planning, coordination and efficiency than in previous years. In restructuring City government, the Mayor established a Finance Cabinet, headed by a Chief Financial Officer, to oversee all financial transactions and to ensure fiscal responsibility. As a part of this restructuring, the City's operating and capital budgeting functions have been combined under the Finance Cabinet. The benefits of this integration include: greater interdepartmental coordination; the development of projects that generate operational savings; and better long-term planning. Many of the projects supported in this year's plan reflect this improved, streamlined approach to capital investment.

The 1996-2000 capital planning process is the City's key asset management system. Since it was initiated in 1985, the planning process has been used to evaluate capital stock conditions, identify capital priorities, forecast the timing and financial requirements of new construction and rehabilitation, and recommend allocation of current and future resources to the Mayor and the City Council. Resource availability and capital needs are not static, however, and must be continually reevaluated.

Steps in the Process The capital planning process centers around an annual capital needs assessment, in order to determine the conditions of the existing infrastructure and identify insufficiently serviced areas. There is a formal internal process involving a systematic submission of proposals by City departments. In addition, there is an ongoing community- and constituent-driven process.

The formal process begins in the fall of each year when the Office of Budget Management solicits capital requests from City cabinets and departments. These requests are based on a department's knowledge of infrastructure problems, earlier planning studies and information gathered from daily exposure

to City conditions, and dialogues with constituents.

The departmental requests must be comprehensive and meet threshold criteria reestablished each year. This year's submissions included project justifications, useful life statements, and information regarding benefits for public/private purposes. In addition, federal tax law regulations included in the 1986 Federal Tax Reform Act require a review of the submissions to determine the extent to which private purposes or benefits exist. This review is necessary for Boston to maintain its tax-exempt financing status.

Additional factors—such as the impact of departmental requests on the operating budget, funding availability, and the need to maintain the City's overall financial and debt management policies—are considered. For example, a request for new equipment could mean greater efficiency and operational savings or it could result in increased costs if it is necessary to hire additional staff to operate the equipment.

All capital improvement projects requesting funding consideration this year had to meet at least one of the following threshold criteria:

- *Complies with the Americans with Disabilities Act (ADA)*
- *Improves health and safety*
- *Supports economic development*
- *Enhances general government effectiveness*
- *Mitigates an environmental hazard*
- *Responds to a legal, legislative, or administrative mandate*
- *Preserves existing municipal facilities*

The capital plan is submitted by the Mayor to the City Council each year. The Council, in turn, holds public hearings and approves authorizations for new projects.

Debt Management Policies and Debt Implications of the Plan

Effective debt management will ensure that the City can meet its capital infrastructure and facility needs. Debt management requires a series of

decisions about the amount, timing, purposes, and structure of debt issuance. The long-term debt related to capital investment has two main purposes: (1) it finances acquisition, construction, repair, and renovation of City-owned buildings, equipment, and other City facilities that are necessary to provide public services; and (2) it finances infrastructure improvements needed for the City's continued growth and maintains safe roadway conditions.

The Treasury Department manages all City borrowings. It has focused in particular on the timing of borrowings, paying special attention to favorable market conditions. The City adopted a set of debt management policies that are implemented by the Treasury Department. These policies address issues such as debt affordability and limitations on the level of variable rate debt the City will use. The goal is to rapidly repay debt, maintain a conservative level of outstanding debt, and ensure the City's continued positive financial standing with the bond market.

Key components of the debt management policies ensure that:

- *combined net direct debt should not exceed 3% of taxable assessed value;*
- *at least 25% of the overall debt should be repaid within five years, and 50% within ten years;*
- *annual debt service costs should not exceed 10% of general fund expenditures;*
- *the variable rate debt should not exceed 20% of the City's total currently outstanding bonded debt.*

The 1996-2000 Capital Plan assumes continued new borrowings of about \$72 million a year. Table II details capital fund debt service projections for a seven-year period, reflecting both actual and projected figures.

The annual debt service requirements are well within the City's maximum guideline of 10%. The City's current overall debt burden (net direct debt to assessed property value of \$26.76 billion) is 1.62%. The City's net direct debt per capita currently stands at \$788.11 as of June 30, 1994. While debt issuance and debt out-

Table II
Seven-Year Debt Service Plan
Gross Debt Service
(dollars in millions)

<i>Actual FY94</i>	92.032
<i>Projected FY95</i>	88.073
<i>Projected FY96</i>	88.875
<i>Projected FY97</i>	88.476
<i>Projected FY98</i>	90.933
<i>Projected FY99</i>	91.656
<i>Projected FY00</i>	90.35
Notes:	
(1) Assumes debt issuance for F'96 through F'00 totalling \$360 million, 20-year average maturity, with an interest rate of 6.25%.	
(2) F'96 through F'00 projections per Office of Budget Management.	

standing have increased over the last decade, it has been a modest increase.

Boston has been conservative about assuming long-term debt and aggressive about retiring debt expeditiously. Currently, the City plans to retire 43.2% of its principal before the end of fiscal year 1999. This overall approach to debt issuance has significantly shaped the City's capital investment strategy. Upgrades to the City's bond rating have also contributed to the successful capital investment strategy. Since 1981, when the rating was withdrawn in response to passage of Proposition 2^{1/2}, through 1983, when the rating began to improve significantly, the investment grade for the City's bonds has continued to reflect sound debt management and capital budgeting policies. Both Moody's Investors Service and Standard & Poor's Corporation have awarded Boston an "A"

rating consistently over the past seven years.

Boston has had 13 bond sales over the past decade, including three refinancing issues. The smallest issue was \$39.1 million in June 1988; the largest was \$96.2 million in 1991, which included a \$16.2 million refunding of existing debt. For the most recent \$70 million general obligation bond issue in September 1994, the City also achieved significant interest rate savings.

Major Capital Projects

The following table list the major projects being undertaken by the Capital Plan. Details of each capital project can be found in the FY96-2000 Capital Plan.

Volumes II and III summarize, by department, capital projects that will become operationalized by the end of FY96.

Major Capital Projects FY96-2000 Plan

Project	Description	Plan Budget
Roadway reconstruction FY94 - FY2000	Reconstruct close to 97 miles of roadways including new sidewalks and underground lighting conduits	\$135,875,000
New police headquarters	Design and construct a new police headquarters for administrative, enhanced 9-1-1 service and computer aided dispatch.	\$65,983,000
Commonwealth Avenue	Reconstruct roadways/sidewalks including new signals, street lights & amenities. To improve public safety trolley tracks will be moved to the middle of the road	\$26,475,000
Sidewalk reconstruction FY94 - FY2000	Reconstruct more than 16 miles of sidewalks	\$20,839,000
McKim Library Building Phase I	Repair mechanical, plumbing, and electrical system Restore architecture and artwork	\$18,929,949
Roadway resurfacing FY94 - FY2000	Mill, overlay and resurface more than 142 miles of roadways	\$17,415,000
Schools initiative	Design funds to support recommendations of the blue ribbon commission. New construction or renovation of existing facilities and fund improvements to maintain accreditation at various high schools.	\$15,675,000
McKim Library Building Phase II	Design and construction of Phase II	\$15,236,051
Streetlighting FY94 - FY2000	Install more than new lighting poles and luminaries on reconstructed streets	\$15,165,000
Cambridge Street	Reconstruct roadways/sidewalks including new signals, street lights & amenities to improve public safety. The trolley tracks will be removed	\$13,200,000
Boston City Hall Asbestos Removal	Identify and remove asbestos from all public office spaces	\$12,750,100
Medical equipment purchases	Replace and upgrade medical equipment	\$11,900,000
Traffic signal equipment	Install new or upgrade traffic signals at an average of seven intersections annually. Replace loop detectors and control boxes.	\$10,427,000
Access improvements at various schools	Provide handicapped access at various schools based on facility assessment survey	\$8,614,500
Summer Street Bridge over Fort Point Channel	Complete design and engineering analysis for rehabilitation/construction.	\$7,570,000
Hyde Park Branch Library addition	Provide building addition	\$7,081,887
McArdle Bridge	Design rehabilitation of bridge.	\$7,001,000
Northern Avenue connector roads	Develop design and engineering plans for connector roads between Congress Street, new Northern Ave and old Northern Ave to improve access to Fort Point Channel area.	\$6,650,000
Congress Street Bridge	Design the rehabilitation of bridge.	\$6,628,000

Major Capital Projects FY96-2000 Plan

Project	Description	Plan Budget
Boston City Hall Plaza	Waterproof courtyard and repair and waterproof plaza over Dock Square garage.	\$6,623,000
Massachusetts Avenue	Develop design and engineering plans to reconstruct Mass. Ave from Boylston St. to Melnea Cass Blvd study restoration of Chester Park	\$6,082,000
Fire equipment	Purchase new equipment including 18 pumper trucks, one cyclone truck, and two rescue units	\$6,052,400
Brighton Avenue	Develop design and engineering plans to reconstruct Brighton Avenue from Packards Corner to Cambridge Street.	\$5,616,000
Chelsea Street Bridge	Design bridge rehabilitation	\$5,591,000
Computer-aided-dispatch (CAD) system	Design and install CAD system for police department, emergency medical services and fire department.	\$5,500,000
South jetty structural improvements	Repair concrete support pilings; repair or replace concrete deck, repair or replace fendering system on jetties. Replace or repair utilities	\$5,457,700
26 Court Street	Complete general renovations including HVAC and electrical improvements, window repairs and elevator repairs	\$5,335,900
Blue Hill Avenue Phase II	Develop design and engineering plans to reconstruct Blue Hill Avenue from Morton Street to Babson Street	\$5,210,000
Vine Street Community Center	Complete feasibility study, begin programming and design for a new community center located in former municipal building.	\$5,141,400
Blue Hill Avenue Phase III	Develop design and engineering plans to reconstruct Blue Hill Avenue from Grove Hall to Dudley Street and Dudley Street from Blue Hill Avenue to Warren Street	\$5,095,000
Health centers initiative	Renovation of various health centers citywide	\$4,500,000
Charlestown service building	Replace roof, waterproof and upgrade building systems.	\$4,233,000
Fuel tank removal and replacement	Remove leaking fuel tanks in East Boston	\$3,696,000
Financial district roadways design	Reconstruction of streets & sidewalks to improve pedestrian & vehicular safety; improve pedestrian & bicycle mobility; create new public spaces within existing public right of way.	\$3,568,000
Central Maintenance Facility	Complete engineering analysis of facility; repair exterior ramps, concrete slab beams, curbs and walls; replace expansion joints and fireproofing, replace roof, and temperature controls. Replace fuel depot	\$3,507,000
Allston Branch Library	Programming and siting study design and construction of new neighborhood branch library	\$3,500,000
Neighborhood business districts	Resurfacing, sidewalk repairs, street lighting various neighborhood business districts.	\$3,365,000
Congress Street pedestrian bridge	Complete design and engineering analysis for rehabilitation/reconstruction	\$3,338,000
Back-up operations center	Design, construct and equip a back-up emergency operations center	\$3,329,000

Statutes and Ordinances

Statutes and Ordinances Governing Boston's Operating Budget

STATUTES AND ORDINANCES

The purpose of this section is to set forth summaries of key Commonwealth laws and City ordinances which affect the formulation of Boston's operating budget and its subsequent expenditure. Please note that the material is not all-inclusive, but does cover the more important laws guiding the budget process.

In addition to the statutes and ordinances, other budget-related dictates can be found in various mayoral Executive Orders and in the policies and administrative guidelines issued by the Office of Budget Management.

Probably the most important legislation to read to obtain a more precise understanding of Boston's operating budget is Chapter 190 of the Acts of 1982, commonly referred to as the Tregor legislation, and Chapter 701 of the Acts of 1986, known as the Tregor amendments.

Annual Appropriation Process

Section 15 of Chapter 190 of the Acts of 1982, as amended by Section 2 of Chapter 701 of the Acts of 1986 states that "(a)l appropriations, excepting those for school purposes, to be met with taxes, revenue or any source other than loans, shall originate with the mayor. The mayor, not later than the second Wednesday in April of each year, shall submit to the city council the annual budget of the current expenses of the city and county for the forthcoming fiscal year...

"The city council may reduce or reject any item but, except upon the recommendation of the mayor, shall not increase any item in, nor the total of, a budget nor add any item thereto, nor shall it originate a budget.

"Not later than the second Wednesday in June, the city council shall take definite action on the annual budget by adopting, reducing or rejecting it, and in the event of their failure to do so, the items and the appropriation orders in the budget as recommended by the mayor shall be in effect as if formally adopted by the city council....

"The city council shall take definite action on any supplementary appropriation

order and any order for a transfer of appropriations by adopting, reducing or rejecting it within sixty days after it is filed with the city clerk...."

School Department Budget Process

Subsection 6 of Section 32 of Chapter 71 of the Acts of 1993 states that "In addition to amounts appropriated for long-term debt service, school lunches, adult education, student transportation, and tuition revenue, each municipality in the commonwealth shall annually appropriate for the support of public schools in the municipality and in any region school district to which the municipality belongs an amount equal to not less than the sum of the minimum required local contribution, federal impact aid, and all state school aid and grants for education but not including equity aid, for the fiscal year....the commissioner (of the Department of Education) shall estimate and report such amounts to each municipality and region school district as early as possible, but no later than March first for the following fiscal year."

Section 2 of Chapter 224 of the Acts of 1936, as amended by Chapter 613 of the Acts of 1987 further states that (a) "In acting on appropriations for educational costs, the city council shall vote on the goal amount of the appropriations requested by the mayor, but neither the mayor nor the city council shall allocate appropriations among accounts or place any restriction on such appropriations. The appropriation of said city shall establish the total appropriation for the support of the public schools, but may not limit the authority of the school committee to determine expenditures within the total appropriation; provided, however, that if the city auditor determines that school department expenditures in any fiscal year are projected to be in excess of total budgeted expenditures for that fiscal year, as supported by appropriation and other available funding, then the school committee shall not reallocate or transfer funds from any item in the budget for

that fiscal year to fund any such projected additional expenditures."

"(b) After the fourth Wednesday of March of any fiscal year, the school committee shall not initiate or authorize any new or additional programs or categories of expenditures requiring additional unbudgeted expenditures unless such programs or categories have been incorporated and fully funded in the budget for the subsequent fiscal year. If such programs or categories have not been incorporated and fully funded in the budget for the subsequent fiscal year, they shall not be initiated or authorized until the school committee shall have amended its budget submission for the subsequent fiscal year to reduce or eliminate other costs, programs or categories in amounts equal to the projected annualized costs of the new or additional programs or categories of expenditures."

"(c) The superintendent of schools shall prepare and submit to the school committee, the city auditor and the city office of budget management, a monthly budget update report which shall detail and itemize year-to-date and projected school department expenditures and budget transfers."

School Department Financial Affairs

Section 1B of Chapter 231 of the Acts of 1906, as amended by Chapter 613 of the Acts of 1987 notes that "(t)he school committee may delegate, in whole or in part, to the superintendent of schools the authority to approve for the school department the acceptance and expenditure of grants or gifts of funds from the federal government, charitable foundations, private corporations, individuals, or from the commonwealth, its counties, municipalities or an agency thereof, the provisions of section fifty-three A of chapter forty-four of the General Laws notwithstanding.

"(b) The superintendent of schools shall provide to the school committee, the city auditor and the city office of budget management of the City of Boston a

report, detailing the source, purpose and balance on hand of all funds received or expended pursuant to subsection (a), quarterly."

Section 2 of Chapter 231 of the Acts of 1906, as amended by of Chapter 613 of the Acts of 1987 states that "(s)ubject to appropriations therefor, the superintendent of schools shall have the exclusive authority to make on behalf of the school committee contracts, or amendments to contracts, for the purchase or rental of equipment, materials, goods or supplies, leases of property, alterations and repairs of school property, and for professional or other services, with the exception of collective bargaining agreements and contracts for the transportation of students. All school department contracts or amendments to contracts shall otherwise conform to the requirements of the city charter of the city of Boston.

"(b) With respect to all contracts, agreements or amendments thereto made or entered into by the school department, the superintendent shall be responsible for establishing procedures for auditing and monitoring the compliance of the parties with the terms and obligations of such contracts, agreements or amendments thereto."

Reserve Fund

Section 7 of Chapter 701 of the Acts of 1986 requires the creation of an operating budget Reserve Fund in order to deal with "extraordinary and unforeseen expenditures." The section goes on to state that "prior to the date when the tax rate for a fiscal year is fixed, include in the appropriations for such a fiscal year as a segregated reserve fund a sum not less than two and one-half percent of the preceding year's appropriations for city and county departments, excepting the school department...

"The mayor, with the approval of the city council, may make direct drafts or transfers against this fund before the close of the fiscal year, provided that no such drafts or transfers be made before June first in any fiscal year.

"Each transfer recommended by the mayor to the city council shall be accompanied by written documentation detailing the amount of such transfers and an explanation for the transfer..."

This section further notes penalty provisions for exhausting the Reserve Fund and provisions for stepping up the fund to the 2 1/2% level. The section requires a 1% contribution for FY87, 1 1/2% for FY88, 2% for FY89 and the full 2 1/2% starting in FY90.

The section then notes that "the school department shall establish a segregated reserve fund of not less than one percent of the current fiscal year's appropriations to the school department within ten days of final approval of such appropriations. No expenditures may be made from this (school department reserve) fund before May first in any fiscal year..." and "shall require the approval of the mayor and the city council."

Budget Allotment Process and Reallocations

Section 18 of Chapter 180 of the Acts of 1982, as amended by Sections 8 and 9 of Chapter 701 of the Acts of 1986 requires that "(o)n or before August first of each year, or within ten days of the annual appropriation order for such fiscal year whichever shall occur later, the city or county officials in charge of departments or agencies, including...the school department shall submit to the city auditor, with a copy to the city clerk...an allotment schedule of the appropriations of all personnel categories included in said budget, indicating the amounts to be expended by the department or agency for such purposes during each of the fiscal quarters of said fiscal year...(The allotment for the school department may not be greater than 20% for the first quarter, and not greater than 30% in each of the remaining three quarters.) (Allotments for city and county agencies may not exceed 30% for first or second quarters and for the third and fourth quarters may not be less than 21%.)

"Whenever the city auditor determines that any department or agency, including the school department will exhaust or has exhausted its quarterly allotment and any amounts unexpended in previous quarters, he shall give notice in writing to such effect to the department head, the mayor and the city clerk, who shall transmit the same to city council.

"The mayor, within seven days after receiving such notice, shall determine whether to waive or enforce such allotment. If the allotment...is waived or not enforced...the department or agency head shall reduce the subsequent quarter's allotments appropriately and the director of administrative services, within seven days, shall state in writing to the city council and the city clerk what reductions in each subsequent quarter's allotment will be taken or what reallocations or transfers will be made to support the spending level in each subsequent quarter's allotment. If the allotment for such quarter is enforced and not waived, thereafter the department shall terminate all personnel expenses for the remainder of such quarter..."

"No personal expenses earned or accrued, within any department, shall be charged to or paid from such department's or agency's allotment of a subsequent quarter without approval by the mayor, except for subsequently determined retroactive compensation adjustments.

"Approval of a payroll for payment of wages, or salaries or other personnel expenses which would result in an expenditure in excess of the allotment shall be a violation by the department or agency head..."

"To insure that the overall city and county spending program remains in balance, the mayor may reallocate no more than three million dollars of non-personnel appropriations other than school appropriations during a fiscal year to other departmental purposes provided that in no department from which appropriations have been reallocated in accordance with this section shall any transfers be made...from personal services to non-personal services, except with the ap-

proval of a two-thirds vote of city council, if such transfer would require the layoff of departmental personnel, who have been permanently appointed to a position in the department....

"No reallocation may be made under this section after April fifteenth in any fiscal year.

"A list of each reallocation made by the mayor shall be transmitted to the city council and the city clerk by the city auditor by April thirtieth in any fiscal year. In each case the report shall state the accounts from which the transferred funds were taken and the accounts to which the funds were reallocated, and the reasons therefor."

Transfer of Appropriations

Section 23 of Chapter 190 of the Acts of 1982, as amended by Section 3 of Chapter 701 of the Acts of 1986 states that "(a)fter an appropriation of money has been made...no transfer of any part of the money thus appropriated, between such department or office and another department or office, shall be made, except in accordance with and after the written recommendation of the mayor to the city council, approved by a...vote of two-thirds of all the members of the city council, provided that the city auditor, with the approval in each instance of the mayor, may make transfers, other than for personal services, from any item to any other item within the appropriations for a department, division of a department or county office.

"After the close of the fiscal year, the city auditor may with the approval of the mayor in each instance, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose only of closing the accounts of such fiscal year, provided further that the city auditor within seventy days after the close of the fiscal year, shall transmit to city council and the city clerk a report listing what income, taxes, or funds were applied and what transfers were made and the reasons therefor."

Penalty for Overspending Budget

Section 17 of Chapter 190 of the Acts of 1982 (Tregor) states that "(n)o official of (the) city or county except in the case of extreme emergency involving the health and safety of the people or their property, shall expend intentionally in any fiscal year any sum in excess of the appropriations duly made in accordance with law, nor involve the city in any contract for the future payment of money in excess of such appropriations....

"Any official who violates the provisions of this section shall be personally liable to the city for any amounts expended intentionally in excess of an appropriation to the extent the city does not recover such amounts from the person to whom paid...."

Appropriation Restrictions

Section 10 of Chapter 701 of the Acts of 1986 requires that "the mayor and city council shall appropriate for the hospitalization and insurance account an amount not less than the average of the past three years actual expenditures from those accounts. The city auditor shall certify, in writing to the board of assessors, that adequate funds are provided in the operating budget for existing collective bargaining contracts...."

Disposition Of Surplus Property Restrictions

Section 24 of Chapter 190 of the Acts of 1982, as amended by Section 4 of Chapter 701 of the Acts of 1986, requires that "proceeds from the disposition of any surplus property shall be deposited in a separate fund which shall be known as the Surplus Property Disposition Fund, and shall be used only as follows: (1) the amount equivalent to the debt incurred, and interest paid or payable thereon, as a result of the acquisition or improvement from time to time of the property shall be used only for purposes for which the city is authorized to incur debt for a period of ten years or more; (2) all proceeds in ex-

cess of such amount shall be credited to the capital fund of the city unless the city council by a majority vote determines with the approval of the mayor to credit such proceeds to the general fund of the city."

Duties Of Supervisor Of Budgets

CBC Ord. 5, s. 5 states that "(t)he supervisor of budgets shall, under the direction of the mayor and in consultation with the director of administrative services, prepare in segregated form the annual and all supplementary budgets...and shall report to the mayor on all subsequent revisions of the items in any budget....

"The supervisor of budgets shall also prepare...all transfer orders....

"The supervisor of budgets shall further prepare...the form of estimate sheets to be used by each officer, board and department, and each division of a department for which the city appropriates money, and the form of monthly report of such officer, board and department, and each division thereof, showing expenditures to date of all appropriations by them.

"The supervisor of budgets shall, in addition, have the powers and perform the duties conferred or imposed on the budget commissioner by any statute other than section 56 of chapter 35 of the General Laws."

Boston's People and Economy

Boston — A Rich Economic and Social Heritage

Greater Boston Area, Inc.

The City of Boston was first incorporated as a town in 1630, and as a city in 1822. It is one of America's oldest cities, with a rich economic and social history. What began as a homesteading community, and eventually evolved into a center for social and political change, has since become the economic and cultural hub of New England.

As the region's hub, Boston is home to 574,283 residents, 31 institutions of higher education, 31 inpatient hospitals, and numerous cultural and professional sports organizations. Boston-based industries, primarily within the finance, health care, educational, and services arenas, provided over 600,000 jobs in 1994. In 1993, an estimated 9.1 million people visited Boston to take in its historic neighborhoods, attend cultural or sporting events or to conduct business.

The City provides a wide range of programs and services to meet the diverse needs of its many residents and visitors. Under the direction of Mayor Thomas M. Menino, the City is also aggressively pursuing new economic opportunities to ensure Boston will emerge a leader in the twenty-first century.

Boston's Role in the Regional Economy

Boston proper has a total population of 574,283. When considered as a Primary Metropolitan Statistical Area (PMSA), however, the population soars to over 3.2 million people. As a Consolidated Metropolitan Statistical Area (CMSA), Boston extends from York, Maine to Thompson, Connecticut and from Milton, New Hampshire to Dartmouth, Massachusetts, with a total population of over 5.4 million.

In addition to having one of the largest concentrations of population, Boston also ranks among the highest concentrations of employment and income in the U.S. In 1994, Boston supplied 610,500 jobs or one out of every thirteen jobs in New England. The majority of these jobs fall within the finance, health care, education, and broad-based services industries. In 1990, in the 25 cities and towns

with the highest per capita income in the Commonwealth, 1 in 4 working residents was employed in Boston.

With 9.5% of the state's population, Boston produces 24% of the goods and services, 21% of the total earned income, and 18% of state tax revenues in Massachusetts.

Boston's Changing Economy

The nature of Boston's economic base has changed dramatically over the past 35 years. In 1960, manufacturing and trade jobs accounted for 39% of the total economy, while financial and service sector jobs totaled 30%. In 1993, manufacturing jobs accounted for only 17% of the total economy; financial and services sector jobs totaled 59%. These trends mirror a national movement from an industrial-based to a services-based economy.

The City's workforce is undergoing a transformation as well. Of the 550,561 people working in Boston in 1960, 34% held blue collar jobs and 44% held white collar jobs. In 1990, of 622,433 Boston workers, those holding blue collar jobs fell to 16%, and those employed in white collar occupations rose to 67%. (See Figure 1.) The majority of these white collar jobs are within the finance, health care, education, and other broad-based services industries.

The changing needs of a services- and information-based economy have resulted in increased demand for a better educated, more highly skilled workforce. Today, only 24% of the adults in Boston do not have a high school education, compared to 55% in 1960. A full 30% of adults are college educated, compared to only 8% in 1960.

Economic Outlook

As with any economic entity, Boston has seen good times and bad. During the 1960s, the economy was thriving and unemployment stayed below 6%. In the 1970s, Boston experienced the same pain felt across the country as a national recession took hold.

Key Indicators of Boston's Economy					
Indicator	1960	1970	1980	1990	Recent
Population Total	697,000	641,000	563,000	574,000	
% Minority Population	<10%	18%	30%	41%	
% Family Households	72%	65%	53%	52%	
Poverty Rate	na	na	20.2%	18.7%	
% Not HS Graduate	55%	47%	32%	24%	
% College Graduate +	8%	10%	20%	30%	
Unemployment Rate	<6%	12.8%(75)	9.1%(82)	8.5%(91)	5.8%(94)
Number of Jobs	550,561	576,125	572,078	622,433	610,500(94)
% Blue Collar Jobs	34%	28%	22%	16%	
% White Collar Jobs	44%	55%	60%	67%	
% Manufacturing Jobs	16%	11%	9%	5.2%	4.8%(93)
% Trade Jobs	23%	22%	16%	13%	12%(93)
% Finance Jobs	11%	13%	13%	15%	15%(93)
% Service Jobs	19%	25%	36%	42%	44%(93)
Office Market Vacancy	8.1%	2.4%	1.2%	14.6%	12%(94)
Housing Units	238,500	232,400	241,300	250,900	
% Vacant Units	6%	6.4%	9.5%	9%	
No. Units Subsidized	15,000 (6.3%)	30,000 (13%)	40,000 (17%)	45,000 (28%)	
% Owner Occupied	27%	27%	27%	31%	
Source: Boston Redevelopment Authority					

Figure 1

Boston's most recent economic downturn occurred from 1989 to 1992. Prior to 1989, a strong economy contributed to significant increases in real estate values in Boston and the surrounding area. Housing prices and rental rates, as well as the Consumer Price Index (CPI), increased. The recession reversed this trend, causing real estate values to fall and an overall decline in the economy.

Since 1992, Boston's economic climate appears to have stabilized, and in some areas there are positive indications of growth. In 1994, nearly \$1 billion in construction was initiated in the City. Much of this new development is related to area institutions, such as health care and educational facilities. The City's office market vacancy rate has decreased significantly from a high of 17.1% in 1991 to 12% in 1994.

Boston's unemployment rate, which peaked at 9.3 % in 1991, had declined to 5.1% as of December 1994. Over 12,700 net new jobs were added to the economy during the first two quarters of 1994, a significant increase over the same period in 1993. The construction, retail trade, and finance/insurance/real estate sectors accounted for 69% of the net new jobs created during this period. Boston's manufacturing and services sectors recorded slight job growth of 1.5% and 1.6% respectively.

The National Planning Association predicts that by the year 2000, Boston will produce 477,000 additional jobs—more than in all but five other metropolitan areas. The majority of these jobs are expected to be in high growth areas such as high tech, bio-tech, business and professional services, finance, and tourism and retail trade.

The Role of Higher Education, Health Care, and Financial Services Industries

The higher education, health care, and financial services industries play a major role in the Boston economy. Of Boston's ten largest employers, nine are in the financial services, health, and education sectors, responsible for 12% of the total private sector employment in 1991.

Many of the nation's finest research and teaching hospitals are among the thirty-one inpatient hospitals in Boston, including Massachusetts General Hospital, Brigham and Women's Hospital, Children's Hospital, and Boston City Hospital. The City is also home to the medical and dental schools of Harvard, Tufts, and Boston universities, and to 30 community-based health centers. In 1994, there were an estimated 84,046 persons employed in health services in the City.

Boston hosts 31 institutions of higher education (IHEs), which have a major impact on the City's economy. During the 1994-1995 academic year, these institutions will bring more than 130,000 students into the City. In 1990, IHEs earned an estimated \$1.7 billion in tuition fees, with payroll earnings of \$1.5 billion. In addition, off-campus students and student visitors spent a total of \$1.6 billion in Massachusetts and \$853 million in Boston during the 1989-1990 academic year.

With more than 1,000 financial institutions located in the City, Boston has an impact that is felt across New England and beyond. Many of the country's leading firms are in Boston, including thirteen of the country's top 100 venture capital firms. The City has the distinction of being the birthplace of the mutual funds industry, and is home to numerous mutual fund organizations and money management firms.

Transportation

Key to Boston's economic well-being is the City's ability to transport residents, workers, and visitors efficiently and safely to their intended destinations. Boston's

public transportation system reaches into the City's many neighborhoods and is linked to the commuter rail system, connecting three million people to the central City.

The roadway system provides access to commuters through surface arteries and three limited access interstate highways which connect Boston to the national highway system: U.S. 90 (the "Massachusetts Turnpike"), leading westward from downtown Boston to the New York State border; U.S. 95, the East Coast's principal north-south highway, that connects Boston to Portland, Maine to the north and New York City and Washington D.C. to the south; and U.S. 93, another north-south highway, that extends from just south of the City to New Hampshire and Maine. These are bordered by major industrial parks and high-technology industry.

In 1994, Boston's Logan International Airport was the twelfth busiest airport in the U.S., serving over 25 million domestic and international passengers, a 4.8% increase over 1993. The Port of Boston, serving the six-state New England region, handled over 1 million tons of containerized cargo (the highest in recent history) and nearly 17 million tons of bulk cargo worth over \$8 billion in fiscal year 1992.

Boston's Changing Population

Since 1950, Boston's population has declined from a high of 801,000 to a low of 563,000 in 1980. This decline can be attributed largely to fewer families with children, a smaller median household size, and to more households composed of single persons or unrelated roommates. Since 1980, however, the City has experienced a gradual increase in total population. The 1990 U.S. Census recorded the City's population at 574,283, representing a 2% increase over the 1980 population—the first increase since the 1940s.

Boston's rich cultural heritage is reflected in the diversity of its neighborhoods. A full range of ethnic backgrounds and countries of origin can be seen in Boston's population. Since 1980, the African-American, Asian and Pacific Island,

and Hispanic populations have continued to increase, while the white population has decreased by 11.4%. This reverses a trend from 1970 to 1980, during which time there was an influx of predominantly white 25-34 year olds moving into the City. The City's minority population, which accounted for just 10% of the total population in 1960, accounts for over 40% of today's population.

The proportion of persons speaking a language other than English tends to follow the patterns of ancestry and country of birth by neighborhood. While 80% of Bostonians speak English at home, other languages frequently spoken at home are Spanish (6%), French and Creole (3%), Italian (2%), and Chinese (2%). Other languages comprise the remaining 7% of non-English languages spoken at home.

Economic Development

Recent trends indicate that Boston's economy has stabilized and is, in some areas, showing positive signs of growth. In 1994, \$945 million worth of major development was begun—creating 4,187 construction jobs and 2,719 permanent jobs—the highest total since 1988. To build upon this momentum and ensure that Boston emerges a leader in the twenty-first century, the City is actively pursuing economic development opportunities.

With the election of Thomas M. Menino as the mayor of Boston, a new cabinet form of government was established to create greater efficiency and improve the delivery of City services. Within this new structure, a Chief Economic Development Officer (CEDO) cabinet was created. The CEDO is charged with developing a successful strategy for promoting the economic viability of the City. Two of the major agencies responsible for economic development under this cabinet—the Economic Development Industrial Corporation and the Boston Redevelopment Authority—have consolidated services to allow for a more coordinated, comprehensive approach to planning and development.

Current projects impacting the Boston economy include the Central Artery/Third Harbor Tunnel project and the Boston Harbor Clean-up, funded primarily by the federal and state governments.

The Central Artery/Third Harbor Tunnel project is the largest public works project in the country, at an estimated cost of \$7.8 billion. The tunnel is expected to alleviate traffic congestion throughout the City, support new development in South Boston, and create 15,000 jobs.

The benefits of the Boston Harbor Clean-up, in addition to a cleaner, safer harbor, include \$1.6 billion in direct spending in the metro Boston region, \$1.9 billion in household income, and an average of 1,500 full and part-time jobs per year.

Another project impacting Boston's economy is the Boston Marine Industrial Park. Over \$40 million in city, state, and federal funds have been invested to construct and rehabilitate roads, utilities, piers, public parks, and parking facilities at Boston Marine Industrial Park. The 191-acre park is home to 196 businesses with over 3,000 employees. To promote further economic growth, the City is planning to develop Harbor Gateway, a seafood processing and light industrial complex.

Ongoing and future economic development projects include Crosstown Transit Ring, plans to develop the East and South Boston seaport districts, further enhancements to Boston's neighborhoods through the Empowerment Zone and Main Streets initiatives, revitalization of Blue Hill Avenue, and the construction of a new exposition center.

The Crosstown Transit Ring, a plan to connect several medical, scientific, and academic areas—the South Bay/Newmarket area, the South End medical area, the Crosstown Industrial Park/Emerging Industries Center, Ruggles Center, and the Longwood medical and educational area—would encourage future development and expansion of this area.

Plans are underway to enhance the East Boston and South Boston seaport districts. Improvements are planned to parks and neighborhoods to connect resi-

dents to the waterfront areas. In South Boston, a new federal courthouse is being constructed, with plans for future hotel, retail, and tourism development, to attract new workers and visitors to the area.

Partnerships play an important role in revitalizing Boston's neighborhoods. Through an Empowerment Zone—a partnership between the City, federal government, and private sector—\$25 million in federal funds and \$35 million in flexible bank capital will be invested to improve the City's neighborhoods. Twenty neighborhoods will be invigorated through Boston's Main Streets Program, a partnership between the City and the National

Trust for Historic Preservation to improve the marketability and business strategy of business districts, and to preserve the character of surrounding residential areas.

A major initiative is underway to revitalize Blue Hill Avenue. Renovations to improve the infrastructure of business and residential areas are being made to support area economic development, from Grove Hall to the Dudley Triangle area.

In addition, the City is exploring the development of a new convention facility. Construction of a new facility would create greater economic opportunity and help to position Boston as a world class city.

Budget Organization and Glossary

Budget Organization and Glossary of Terms

The City of Boston's Program Budget provides a wealth of information related to City services and their associated costs. The Operating Budget presents recommended resource allocations in terms of personnel, facilities, and goods and services. It also describes the services provided by City and County departments, divisions, commissions, and other offices, and specifically identifies levels of services that will be provided by these entities in FY96.

This Chapter is a guide to the organization of the FY96 Operating Budget.

Organization of the Volumes

Volume I provides a City-wide review of information on the FY96 budget and on the context in which it is prepared. Sections include:

- an executive summary,
- a summary of the budget,
- the tax and appropriation orders,
- revenue, estimates and analysis,
- program budgeting and goals,
- financial management in the City,
- capital planning,
- general laws and statutes governing the City,
- Boston's people and its economy, and
- the organization of the budget and a glossary of terms.

In Volumes II and III the budgets of cabinets and the component departments are presented.

The Building Blocks: Program Budgets

Activities and services of the City are grouped into "programs" for budgeting and management purposes. The budget for each department is presented on a program-by-program basis.

A "program" is defined as:

"An organized group of activities, and the resources to carry them out, aimed at attaining one or more related objectives."

For the purposes of program budgeting and program evaluation, a program can

consist of direct services to the public and neighborhoods of the City (police patrol or voter registration), or traditional City staff functions (administrative services or engineering and design).

Some City activities may not be defined as separate programs although they may be self-contained operations. For example, a fire station is not a separate program although it is a cost center, for accounting purposes, within the Fire Department's Fire Suppression Program.

While these program budgets serve as the basic building blocks of the budget, there are three additional organizational levels above the program level in the budget:

- The Division Level: for budgeted units within some departments.
- The Department Level: which includes departments, commissions, and other offices.
- The Cabinet Level: which includes functionally related departments.

The basic budget presentation is modified slightly depending on the structure of a department.

Understanding The Information Presented

Three basic components are used to present the FY96 budget. These are:

- Description of organization, its mission, its major goals, and specific services,
- Financial data, and
- Personnel data.

Description of Organization and Definition of Categories

This outlines the structure of information reported within each department and program in the budget. It also defines what is included in the mission statements, services, performance objectives, service indicators, major goal outcomes, capital expenses, and external funds for FY96.

Department/Division Level

- Mission statement: The mission statement is a fundamental statement of purpose.
- Performance Objectives: These reflect stated goals for which the division or department

will be held accountable in FY96, and measured on a quarterly basis.

- **FY95 Goal results and achievements:** Major goals set last year are reported here, as well as the department's year-to-date achievement (as of December, 1994) toward their accomplishment.
- **Description:** This text furnishes a general overview of the department and its responsibilities, and lists examples of major services provided.
- **Capital Expenses:** Any expenditures for projects financed with capital outlays that are scheduled to come on-line between the end of FY95 through FY96 will be described here.
- **External Funds:** This section summarizes anticipated external financing for program services or projects overseen by City departments.

Departments or divisions report progress toward attaining the FY96 performance objectives based on more specific program outcomes on a monthly basis. This progress is summarized publicly in a mid-year and final annual report.

Program Level

- **Description and context bullets:** This section furnishes a general overview of the program and its responsibilities, and lists examples of major services provided. Added context is often displayed on the demand for services or to illustrate the scope of the department's responsibilities in more detail.
- **Program Performance Objectives:** Each program identifies the relevant FY96 department objectives by which it will be measured.
- **Program Outcomes:** These illustrate the intended level achievement of overall program objectives in quantifiable terms.
- **Selected Service Indicators:** The selected indicators of service provide brief comparisons of personnel, funding, and measures of how well the program has performed throughout time, from FY91 to FY94. It also includes FY95 and FY96 projected levels of service along with budgeted staff and funding levels. Service levels may measure workload, service quality, inputs, outputs, efficiency, or productivity. Some criteria for FY96 are the same as those in previous years; however, many have been dropped

and new measures created to more accurately reflect the outcome being pursued.

- In cases where the service level depends on an external factor (for example, the number of tax abatements or building permits applied for), the promised service level reflects the workload which the program is equipped to handle in an efficient and effective manner.

Programs report levels of service outputs and achievement of promised outcomes on a monthly basis. This progress is summarized publicly in a mid-year and final annual report.

Financial Data

The financial data identify the major groups and object codes of expenditures (Personal Services/Overtime, Supplies and Materials/Food Supplies, etc.) and the historical expenditures and proposed appropriations in these groups and objects.

Two financial sheets are provided on the FY96 Operating Budget.

Department History by Object Code: The objects of expenditure are listed within six expenditure groups. Dollar amounts are shown for:

- FY93 actual expenditure,
- FY94 actual expenditure,
- FY95 appropriation,
- FY96 proposed appropriation, and
- The difference between the FY95 appropriation and the FY96 proposed appropriation.

Department Personnel Data: The personnel data show funding for permanent positions, including existing and proposed positions. All permanent positions are listed by salary grade within the department or division. The total salary request is listed for these positions.

For each position shown, the following information is provided:

- **Position:** The civil service/personnel system job title of the position.
- **Grade:** The code for the salary grade of the position.
- **Filled 3/10/95:** The number of full-time equivalent employees in this job title as of March 10, 1995.

Historical levels of

service back to FY91

are presented for

comparison purposes.

Exhibit Expenditure Groups, Codes, and Objects

Personal Services

0100	Permanent Employees
0110	Emergency Employees
0120	Overtime
0150	Fringe (External Funds)
0160	Unemployment Comp
0170	Workers' Comp
0180	Indirect (External Funds)

Contractual Services

0210	Communications
0220	Light, Heat, Power
0230	Water and Sewer
0250	Garbage/Waste Removal
0260	Repairs: Buildings and Structures
0270	Repairs and Service: Equipment
0280	Transport of Persons
0290	Miscellaneous Contractual Services

Supplies and Materials

0300	Auto Energy Supplies
0320	Food Supplies
0330	Heating Supplies and Materials
0340	Household Supplies and Materials
0350	Medical, Dental and Related
0360	Office Supplies and Materials
0370	Clothing Allowance
0390	Miscellaneous Supplies and Materials

Current Charges and Obligations

0450	Aid to Veterans
0460	Equipment Lease/Purchase
0470	Indemnification
0490	Other Current Charges

Equipment

0500	Automotive Equipment
0560	Office Furniture and Equipment
0590	Miscellaneous Equipment

Other

0600	Special Appropriation
0700	Structures and Improvements
0800	Land and Non-structural

- **Salary Requirement:** This column is used to show the currently authorized full-time equivalent personnel quota, and the total dollars needed to fund the quota.
- **Adjustments:** The full-time equivalent number of permanent positions, and the total salaries, to be added or subtracted from the numbers in the "Salary Requirements" column.
- **Total:** The resulting quota and the total salaries allowed in the budget.

The total dollar, permanent personnel budget figure, shown at the bottom right of the personnel sheet, is then adjusted as follows:

- **Differential Payments:** These payments are amounts paid to employees in intermittent job titles and employees entitled to shift differential payments. This figure is an addition to salary requirements.
- **Collective Bargaining:** This budgeted amount represents funds available solely to meet projected wage increases due to collective bargaining agreements under negotiation.
- **Other:** These figures, where shown, cover other payments such as sick leave and vacation buy-back, longevity pay, etc.
- **Salary Savings:** These savings, subtracted from the salary requirements calculated, are estimated amounts projected to result from employee turnover based upon historical experience, savings as a result of personnel reductions, or the payroll costs to be charged to another fund or appropriation.

Glossary of Terms

Account Number: The number by which the Auditor categorizes an appropriation. For budget purposes, also known as appropriation code.

Accrual Basis: The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

Allotment: The amount which can be expended quarterly for personnel as determined by the terms of the Tregor legislation.

Appropriation: The legal authorization to expend funds during a specific period,

usually one fiscal year. In Boston, the City Council is the appropriating authority.

Base Budget: A budget which describes the funding required to maintain existing levels of service or activity.

Budget: A formal estimate of expenditures and revenues for a defined period, usually for one year.

Budget Amendment: A change from originally budgeted quotas; the forms filed by departments with the Human Resources Department and the Office of Budget Management to justify these changes.

Capital Plan: A plan of proposed outlays for acquiring long-term assets and the means for financing those acquisitions. Normally financing is by long-term debt.

Cash basis: A basis of accounting under which transactions are recognized only when cash changes hands.

Chargeback: A method of assessing departments for costs incurred by them for which they are not billed directly. Charges for centrex telephone, postage, and printing are examples.

Cherry Sheet: A cherry-colored form showing all Commonwealth and county charges and reimbursements to a city or town as certified by the state Director of the Bureau of Accounts.

Collective Bargaining: The process of negotiations between the City administration and bargaining units (unions) regarding the salary and fringe benefits of City employees.

Commission: An appointed policy setting body.

Credit Balance: See departmental deficit.

Credit Transfer: The transfer of appropriations from one object code to another, within a department; the form used to effect such a change.

Debit Transfer: Moving actual expenditures from one object code to another within or between departments; the form used for such moves. Usually used as a correcting entry.

Department: A major service-providing entity of City government, established by law.

Departmental Deficit: A condition which exists when departmental expenditures exceed departmental appropriations. Also refers to the overexpended amount and credit balance.

Departmental Income: Income flowing to a specific City department, usually as a result of user revenues applied for services rendered. Parking meter charges, building permit fees, and traffic fines are examples of departmental income.

Division: A budgeted sub-unit of a department.

Encumbrance: Funds set aside from an appropriation to pay a known future liability.

Excise: A tax applying to a specific industry or good. The jet fuel tax and the hotel/motel occupancy tax are examples of excises.

Expenditure: An actual payment for goods or services received.

External Fund: Money received by an agency which is not generated from City sources, such as grants or trusts.

Fiscal Year: The twelve month financial period used by the City which begins July 1 and ends June 30 of the following calendar year. The City's fiscal year is numbered according to the year in which it ends.

Full Faith and Credit: A pledge of the general taxing powers for the payment of governmental obligations. Bonds carrying such pledges are usually referred to as general obligation or full faith and credit bonds.

Full-time Equivalent Position: A concept used to group together part-time positions into full-time units.

Fund: An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources with all related liabilities, obligations, reserves, and equities, segregated to carry on specific activities or attaining certain objectives. Among

the fund types used by the City are: General, Special, Trust, and Capital.

GAAP: Generally Accepted Accounting Principles. There are twelve basic principles of accounting and reporting applicable to state and local governments. These include the use of the modified accrual or accrual basis of accounting, as appropriate, for measuring financial position and operating results. These principles must be observed in order to provide a basis of comparison for governmental units.

General Obligation (G.O.) Bonds: Bonds for whose payment the full faith and credit of the issuer has been pledged. More commonly, but not necessarily, general obligation bonds are payable from property taxes and other general revenues.

Goal: A statement, in general terms, of a desired condition, state of affairs, or situation. Goals are long-term in nature, and are not usually directly measurable in themselves. The establishment of goals helps define the mission that agencies need to carry out.

Grant Year: The grant accounting period designated by the requirements of a specific grant.

Headcount: The actual number of full-time or full-time equivalent employees in a department at any given point in time. The headcount will change from time to time as employees are hired or terminated.

Line Item: See Object Code.

Mission: A fundamental description of what is done, including a general overview of the purposes and major activities of an agency or program.

Modified Accrual Basis: The accrual basis of accounting adapted to the governmental fund type, wherein only current assets and current liabilities are generally reported on fund balance sheets, and fund operating statements present "financial flow" information (revenues and expenditures). Revenues are recognized when they become both "measurable" and "available to finance expenditures of the current period." Expenditures are

recognized when the related fund liability is incurred except for a few specific exceptions. All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting.

Object Code: An expenditure classification according to the type of item purchased or service obtained; for example, emergency employees, communications, food supplies, automotive equipment.

Objective: See Performance Objective.

Operating Budget: A legally adopted plan for anticipated expenditures for personnel, supplies, and services in one fiscal year.

Outcome: A quantifiable, reportable measure of the intended performance objective; reflects the results of a program in terms of impact on the level of need or the problem being addressed.

Performance Measure: An indicator of achievement. Measures can be defined for identifying output, work or service quality, efficiency, effectiveness, and productivity.

Performance Objective: A statement of proposed accomplishments or attainments. Objectives are short-term in nature and are measurable.

Program: An organized group of activities, and the resources to carry them out, aimed at attaining one or more related objectives.

Program Evaluation: The process of comparing actual service levels achieved with promised results; also refers to assessing, for the purpose of improving, the way a program operates.

Proposition 2 1/2: A state-wide tax limitation initiative petition limiting the property tax levy in cities and towns in the Commonwealth to 2 1/2% of the full and fair cash valuation of the taxable real and personal property in that city or town. The statute also places an annual growth cap of 2 1/2% on the increase in the property tax levy.

Quota: The planned number of positions which can be funded by a department

budget. This can refer either to specific titles or to the number of personnel funded in the entire department. The quota of positions will change, from time to time, by means of a budget amendment. The actual number of personnel working in a department at any one point in time may differ from the quota.

Reallocation: A transfer by the Mayor of up to \$3 million authorized under the Tregor legislation, prior to April 15, to relieve departmental deficits, or meet unanticipated financial problems.

Reserve Fund: An appropriation for contingencies.

Revenue: Income received by the City.

Salary Savings: For budget purposes, an amount that will be saved from annual turnover of personnel in any department.

Special Appropriation: An authorization to expend funds for a specific project not encompassed by normal operating categories.

Special Revenue Fund: Used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or sources for major capital projects) that are legally restricted to expenditures for specific purposes. A special revenue fund is accounted for in the same manner as a General Fund.

STAT: Statutory accounting and reporting which is adopted by a legislative body of a governmental entity. The method of recording and reporting actual expenditures and revenues within a plan of financial operations that establishes a basis for the control and evaluation of activities financed through the General Fund. When the budget basis and basis of accounting are different, a governmental unit usually maintains its records on a budget basis.

State Distributions: All City revenue flowing from the state. Major categories include reimbursement for loss of taxes, educational distributions and reimbursements, funds for direct education expenditures, general government reimbursements and distributions.

Sub-Object: A detailed breakdown of an Object Code.

Sub-Program: A sub-program is defined discretely, for purposes of management, which along with other related sub-programs makes up a larger program.

Supplementary Appropriation: An appropriation submitted to the City Council after the operating budget has been approved, which must specify a revenue source.

Third Party Payment: Medical payments, usually from an insurance carrier to a health care provider on behalf of an injured or infirm party.

Trust Funds: Funds held by the City in a fiduciary role, to be expended for the purposes specified by the donor.

Unliquidated Reserve: A fund established at year-end, used to pay for goods and services received this year, but not billed until next year.

